H.J. HEINZ

COMPANY

Anuel Report 1977

Highlights

In thousands except per share data	*1977*	*1976*	*Increase*
Sales	$1,868,820	$1,749,691	6.8%
Operating income	172,827	143,820	20.2
Net income	83,816	73,960	13.3
Per common share amounts:			
Net income	$ 3.55	$ 3.21	10.6%
Net income (fully diluted)	3.47	3.15	10.2
Dividends	1.06⅔	.86⅔	23.1
Book value	26.27	23.79	10.4
Capital expenditures	$ 53,679	$ 34,682	54.8%
Depreciation expense	29,697	27,900	6.4
Net property	356,394	336,624	5.9
Cash and short-term investments	$ 175,600	$ 128,242	36.9%
Working capital	472,232	434,572	8.7
Total debt	220,779	219,387	0.6
Shareholders' equity	655,531	598,613	9.5
Average number of common shares outstanding	22,743	22,696	
Current ratio	2.25	2.32	
Debt/invested capital	26.5%	28.3%	
Pretax return on average invested capital	20.2%	18.6%	
Return on average shareholders' equity	13.4%	13.4%	

Certain financial data for 1976 have been restated for the 3-for-2 common stock split and for the change in classification for certain promotional allowances, as described in the Financial Review and Management's Analysis.

To Our Shareholders:

Fiscal 1977, for all its difficult climate, proved to be our 14th consecutive year of record sales and earnings. The figures on the opposite page summarize our achievements. The following facts deserve special attention:

— Earnings advanced satisfactorily on a modest increase in sales. This established the wisdom of selective concentration upon more profitable lines and the de-emphasis or elimination of low-margin items. Gratifyingly, much of this year's sales rise came from increased volume.

— A review of the past decade shows that net earnings and earnings per share have risen at compound growth rates in excess of 10%.

— Every Heinz company around the world was profitable. We achieved this record by tight cost controls, strong promotion of our various lines, and termination of unprofitable operations.

— More sophisticated fine tuning gave us the strongest financial position in our history. We reduced average debt and interest expense, thereby giving ourselves one of the lowest debt-equity ratios in our industry. Cash and short-term investments increased substantially. We are now better than ever prepared to seek out and seize favorable opportunities without delay, from the development and promotion of new products to the installation of expanded and more productive facilities to the acquisition of entities and assets that mesh with our existing proficiencies.

— We reached a vaster audience of consumers with a boost of more than 89% in advertising expenditures, emphasizing the aggressive marketing of successful product lines and of new products with outstanding potential.

— We made further progress in the drive to increase the already dominant contribution of our domestic companies to consolidated results. In doing so, we defined even more clearly the true image of Heinz as a strong, primarily American company with healthy offshore operations.

The record year required a vigilant struggle against worldwide economic problems beyond our control, notably inflation and currency instability. Devaluation spread. The Australian and Canadian dollars were devalued in relation to the U.S. dollar, reducing the contributions of our companies in these countries to consolidated earnings.

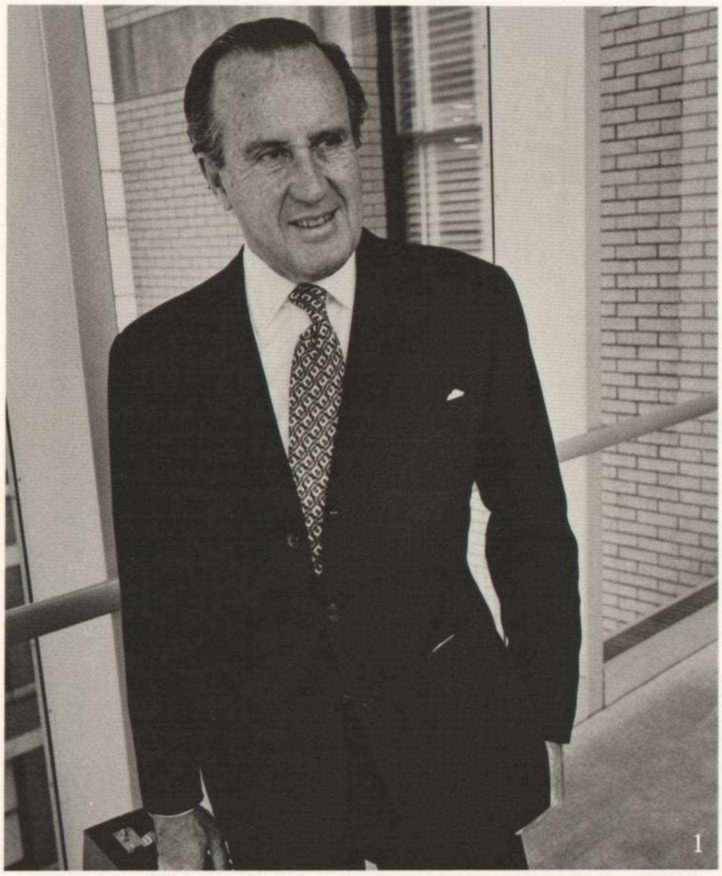
Fluctuating exchange rates cast a shadow over good performances by Heinz companies elsewhere. In the United Kingdom, for example, profits went up, unit sales for most major product lines rose, market shares for most products held at high levels, and profit margins increased. This creditable performance, however, was blunted by a 17% drop in the average value of the British pound since last year. A similar picture prevailed in Italy, where the average value of the lira fell by 23% against the dollar. Plasmon, nevertheless, remains a profitable company, well managed and with an outstanding market position.

Altogether, unrealized currency losses cost us $10.2 million, or 45 cents a share, compared with $824,000, or 4 cents a share, in fiscal 1976. At year end, however, there was evidence of improved monetary stability and in some countries the rate of inflation was slowing. It is to be hoped that adverse currency fluctuations are now behind us and that the picture in fiscal 1978 will be more favorable. The United Kingdom's program to achieve complete self-sufficiency in oil by 1980 could have a positive impact on the British balance of payments.

The year saw further improvement in the contribution by domestic companies. In a sharp reversal of the situation a decade ago, U.S.-based operations provided 62% of consolidated sales and 70% of consolidated income, excluding currency losses, in fiscal 1977. In the future, our domestic business—operating in the world's richest market—is expected to grow faster than our offshore business, in terms both absolute and relative.

Heinz U.S.A., our largest unit, came under new leadership and thorough reorganization to achieve results more closely in line with resources and potential. Lines of managerial responsibility, purchasing methods, marketing techniques and new product activity all were redirected toward greater growth and profitability. We continued to eliminate marginal products and to concentrate upon support of higher-profit items and promising new products. Progress was evident as Heinz U.S.A.'s results ran well ahead of those for fiscal 1976. The outlook for further improvement in fiscal 1978 is exceptionally bright.

1. Henry J. Heinz II
   Chairman
2. R. Burt Gookin
   Vice Chairman and Chief Executive Officer
3. Anthony J. F. O'Reilly
   President and Chief Operating Officer



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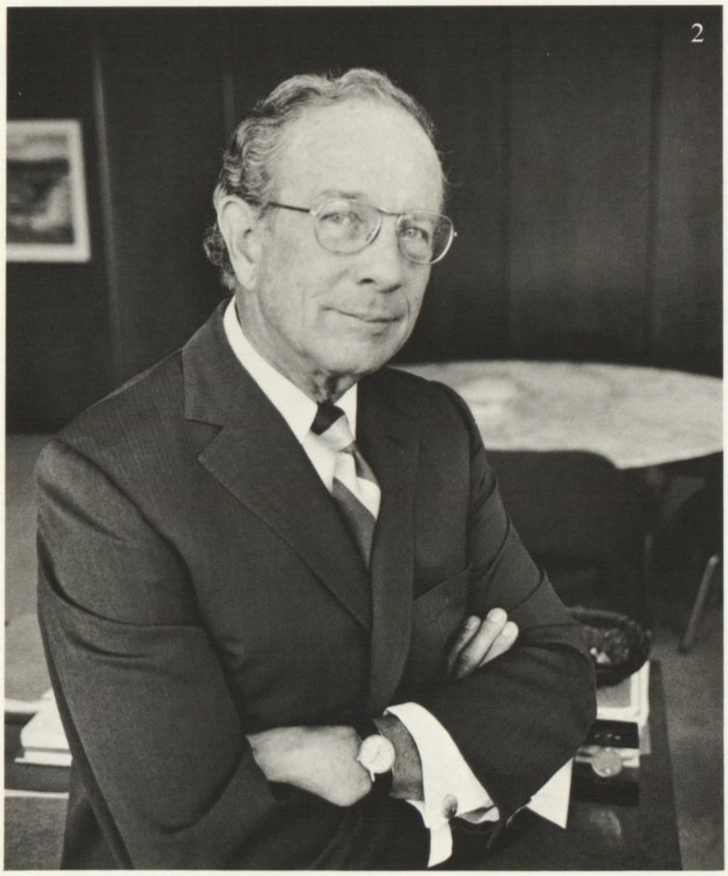

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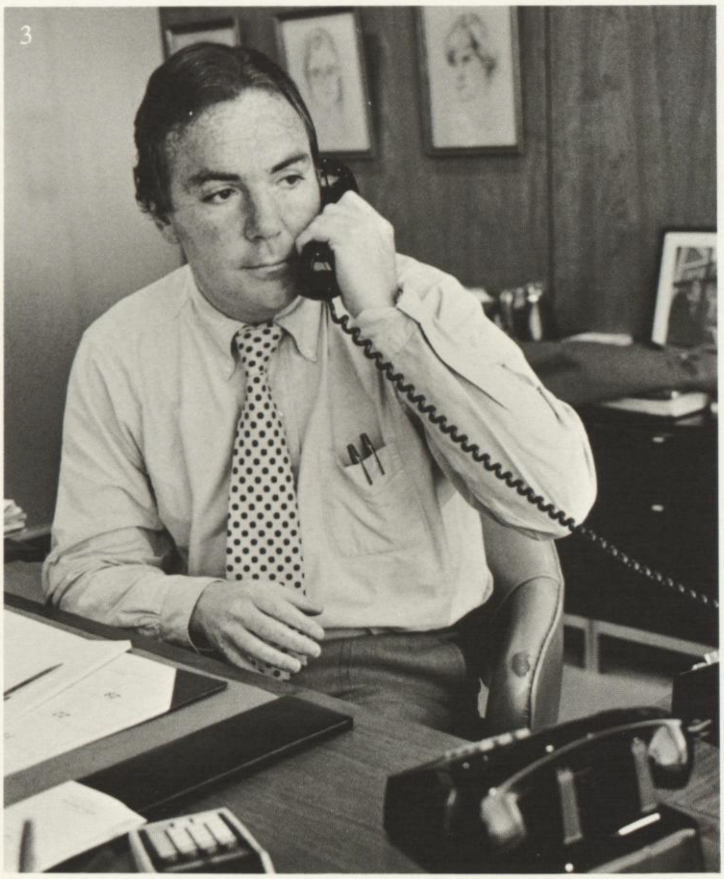

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Ore-Ida had a record year and strengthened its first-place position among marketers of frozen potato products for the grocery trade. The total market showed little growth, but Ore-Ida expanded market shares and widened profit margins.

Star-Kist had an excellent year, clouded by uncertainty over government regulations covering the number of porpoises that could be incidentally taken in fishing for yellowfin tuna. Finding these regulations unworkable, the U.S. tuna fleet remained in port for approximately 10 weeks. Meanwhile, foreign fleets, free of such restrictions, widened their fishing areas and undoubtedly increased the porpoise kill. Ironically, the U.S. tuna fleet has developed new techniques that have substantially reduced the incidental taking of porpoises in recent years.

The Hubinger Company, completing its first full year as a Heinz affiliate, made progress in its plans to increase corn milling capacity and begin production of high fructose corn syrup by the end of fiscal 1978. Despite current price weakness for corn sweeteners, the outlook for the industry remains promising, especially if steps are taken to reduce America's 50% dependency upon foreign sources for its total supply of sweeteners.

Actions taken to increase the attractiveness of Heinz common stock reflected confidence generated by the year's results and optimism over long-term prospects. Shareholders approved a 3-for-2 split of common shares at the annual meeting in September, 1976, and a higher dividend was paid on the split shares. Another dividend increase—the 13th in the past 10 years—was approved by the Board of Directors in March for payment in April. Recognizing shareholder interest in current income, management intends to continue review of the dividend rate at appropriate intervals.

We were pleased at year end to announce that F. James McDonald, executive vice president for North American Automotive Operations and a director of General Motors Corporation, had accepted election to the Board of Directors. He brings outstanding business experience to Heinz and his counsel will be valued.

In line with our historical dedication to consumer service, we have worked with others to help create and implement a new grocery labeling system known as the Universal Product Code. Designed for rapid and accurate electronic scanning of labels at check-out counters, UPC promises to effect important savings for store operators, as well as to expedite the check-out process and provide improved information for their customers.

Fiscal 1977's record results in the face of unrelenting economic problems in all marketing areas proved the strength of the managerial talents we have developed during the past decade. The strength and versatility of our management group can be traced to a system of ample reward for outstanding performance, the use of decentralization to encourage individual initiative, and the stimulus—and responsibility—fostered by insistence upon self-set goals.

Management, for its part, has a serious obligation to all those who work for the company. This is part of what we call "the human purpose of business": to provide improved job opportunities, upgraded working conditions and, equally important, the investments in production efficiency that have given employees more income and leisure to attend to their personal interests beyond the factories and offices.

This annual report concentrates upon the people of Heinz, saluting the performance they render within the organization and the many ways they have found to enrich their lives, and the lives of others, away from work.

It should go without saying that a corporation, like any other institution in our society, is an assemblage of human individuals organized for common and useful purposes and enjoying the freedom to pursue outside activities of their own choice and to their own satisfaction.

It is natural, moreover, to expect that the corporation, again like any other institution, will from time to time come under criticism and attack—some valid, some baseless, some frivolous. We must learn to ignore the frivolous, respond forcefully to the baseless and—most importantly—listen responsibly to those who have something to offer from which we can learn.

Indiscriminate attacks, of course, serve no purpose. In the case of our industry, which has received more than its fair

share, these attacks have as an apparent goal the further imposition of regulations upon an industry already heavily monitored. As one corporate leader has observed, consumers need to be liberated from their self-appointed protectors in and out of government, for sooner or later regulation "either increases consumer costs or decreases consumer choice or both."

In our system, we do recognize that constructive dialogue and debate are essential. At the same time, we also recognize that we must constantly be on guard to protect our most precious heritage, which is freedom. In the final analysis, we firmly believe that the basic good sense and decency of the American people will prevail, as has been our historical tradition. In that hopeful context, we see a bright future for our company on the American scene.

Basic to that future will be the human purpose of which we spoke above, which entails better opportunities for our employees, the creation of more jobs for a growing work force, better products and better service for our customers, and growing rewards for the shareholders who have kept faith with us through their investments.

Toward these ends, we will continue the practices that have served us so well in the past, at the same time testing new approaches and procedures. Among the foreseeable developments in fiscal 1978 are these:

—Greater advertising expenditures to promote the sales of our products. These will be constantly monitored and reviewed to determine their effectiveness.

—Further attention to higher-margin products, new and existing, with judicious pruning of those that show little promise of meeting profit goals. This activity simply responds to the demands of consumers as expressed in their shopping choices. We will seek also to create markets for new products where conspicuous gaps appear and where those products can be counted upon to yield good returns.

—An intensified search for worthwhile acquisition candidates, particularly in hard currency areas. In part because of limitations imposed by U.S. antitrust laws, we do not exclude the possibility of movement into non-food areas. Such movement will take into account our present patterns and expertise in distribution and will apply stricter than usual criteria for growth potential.

—Greater stress on development of businesses serving such stable currency areas as the North American market, primarily the United States. This conforms to a present reality that does not imply any slighting of our overseas operations and that does not preclude the search for attractive new opportunities offshore.

The solid basis of our growth, of course, will remain our skill in the procurement of food raw materials, in the processing of those raw materials into convenience food products, and in our long-established presence in the world's richest markets, notably North America, Europe and Australia.

With the momentum we have already achieved, and with exciting new possibilities on the horizon, we have every confidence that next year's annual report will show continuing progress for our company.

Henry J. Heinz II
Chairman

R. Burt Gookin
Vice Chairman and Chief
Executive Officer

Anthony J. F. O'Reilly
President and Chief
Operating Officer

Marketing

Fiscal 1977 brought new problems to add to those carried over from the year before. Heinz company managers had to draw upon all their skill, experience and ingenuity. The results would have been good in stable times. They were exceptional in the prevailing business climate.

Inflation continued in most marketing areas, although at more moderate rates. Consumers continued to be squeezed, and adjusted their buying habits accordingly.

In the U.S., the most severe winter in many years interrupted fuel supplies and sent fuel bills soaring. A combination of unprecedented phenomena in California reduced the tomato crop. In Europe, one of the hottest and driest summers on record diminished crops, pushed prices up and disrupted normal consumption patterns.

Helped by a sweeping reorganization, tighter cost controls, increased promotional support for higher-profit products, and successful new product development, Heinz U.S.A. improved its performance and at year end had turned in a greater profit than in the year before.

Reorganization based on profit centers, with direct managerial responsibility for specific product lines, was a key element in the year's strong showing. Advertising spending rose by 86% over fiscal 1976, heralding a significant change in marketing strategy, with support now concentrated on product lines that offer the best opportunities for growth and profits.

The market share for tomato ketchup bounced back after a brief drop caused by competitive price cutting. Margins improved, too, although volume remained somewhat soft until late in the year.

After long research, baby foods were reformulated to eliminate all added salt and reduce the amount of added sugar, in line with industrywide moves. The market share after this reformulation remained steady.

The pickle line benefited from stringent cost-reduction measures and profit-oriented marketing programs. The line was expanded by introduction into test markets of a new Polish-style dill. A new apple cider flavor, more economical to produce and preferred by customers, contributed to a better showing by vinegars.

A series of successes during the year gave evidence of Heinz U.S.A.'s aggressive approach to new product development and marketing. Home style gravies, introduced into test markets last year, went into expanded test in markets representing 20% of the U.S. This quality product, packed in glass jars ready for use, took number-one position by capturing about one-third of the market, running well ahead of the share originally projected.

Chili Fixin's, another new product introduced last year, took a strong number-two spot in expanded test markets covering 20% of the national market.

Foodservice business continued to grow faster than grocery as more Americans ate meals away from home, thanks to higher disposable incomes and an increase in the number of working wives and of households headed by single persons. Heinz U.S.A. strengthened its position in this vast market through improvements in existing lines and new products, primarily in the frozen food category. A new line of frozen cakes and cream pies was successfully introduced. Heinz has the only frozen cream cakes and shortcakes on the market, while its cream pies and cheese cakes are doing very well against established competition because of their superior quality and ease of handling. In the first four months of national distribution, foodservice customers bought more than 150,000 cases of Heinz frozen foods and frozen desserts.

Other developments included a new ketchup packaging concept for fast food operators offering greater economy and convenience, and a new line of salad dressings now in extensive testing.

Despite the porpoise problem, fiscal 1977 was another excellent year for Star-Kist, although the total catch ran behind that of the preceding year. Unit tuna sales ran well ahead of the previous year, and in the third quarter were up by more than 20%. Star-Kist moved closer to the leading brand than at any time during the past several years, and during one survey period was ahead with a full one-point market share lead. A new chunk light tuna variety in springwater was introduced on a national basis with strong media support.

Pet food unit sales also moved up strongly. Star-Kist's 9-Lives, recording all-time highs in shipments and market share gains, became the number-one canned cat food brand in the U.S. National introduction of Square Meal soft moist cat food was completed, supported by network television advertising and consumer incentive programs. Response from the grocery trade and consumers is encouraging.

Ore-Ida, which has become the leading processor of frozen potato products for the grocery market, had a record year. In a market that showed little growth, it enjoyed a sizable

Glen McConaughey

Print shop supervisor
Ore-Ida Foods, Boise

The colt is playful this day, and Glen McConaughey appraises its movements with the informed eye of one who has raised Jockey Club thoroughbreds for most of his adult life. "I started with one stallion and two brood mares, kept the better colts, kept improving the blood." Today, the farm holds seven of his own horses, plus a varying number that belong to his in-laws. / The old farmhouse fronts on Highway 69, some 14 miles from Boise. On its grounds is a 5/8-mile track used to train the horses. "We bought this place from the fellow who'd homesteaded it in 1909. We call it Le Ferme. That's French for the farm. We thought it sounded more sophisticated." / The land is flat, its circular horizon rimmed by distant mountains. "I'm an amateur rock hound. We make jewelry and such. This picture jasper comes from the Owyhee Mountains right over there. It looks like the landscape when you finish, mostly blues and browns." / Horse racing is a popular fever in Idaho, which has no major league teams in baseball, football or other sports to lure spectators from the tracks. / "Yes, I have had real good luck. My own horses have won 15 or more races. My South Bow never finished worse than third—this is considered pretty unusual. Then there's Roan Will. Over 90 percent of his colts have won at the race track, and that's a feat few stallions have accomplished. One of his daughters was the only one ever named Mare of the Year for Idaho in two different years. I am proud of that."


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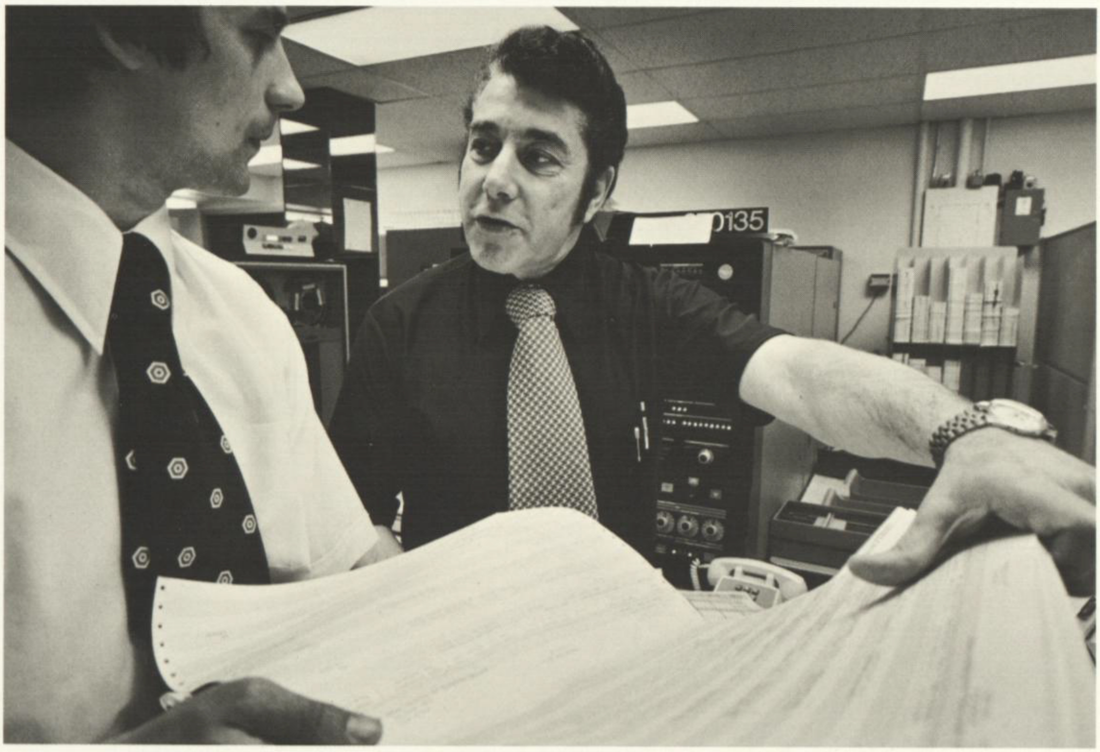
PATROL LEADER

Basil A. Celany

Manager-taxes and property accounting Ore-Ida Foods, Boise



As institutional representative to Boy Scout Troop 4 of the Ore-Ida Scout Council, Basil Celany is the first to arrive at the site. Soon after come the boys, jumping awkwardly, shaking hands all around, clamoring to build the fire and break out the food, their red berets like giant poppies moving through the woods. / "You can call them retarded, yes, but almost every mentally handicapped person is also physically handicapped. We take that into account." / Gently, he warns them not to walk too close to the river. Instantly, gravely, they join hands and edge away from the bank. / The fire is lively now, and beans bubble in the pot. "It touches you, how eager they are to learn. And learn they can, although retention is a problem. We do see a lot of progress. Last year, four of our boys served as color guard at the Governor's Conference on the Handicapped. And two of our boys are ready for 'mainstreaming'—ready to join regular troops of normal boys. That took work and patience, on their part and ours." / Patience. "If a boy can't learn to tie a square knot in four or five tries, we move on to something else. They lose interest fast, and need constant encouragement." / The day-long clouds darken, threatening rain. Quickly the food is gone, every bite. The fire is covered with dirt. The site is cleared, left as nature had it. The boys move out for their homes, shouting repeated goodbyes over their shoulders. This day's challenge has been faced and conquered.

increase in its unit share. On a dollar basis, Ore-Ida now holds a market share in excess of 50%. At the same time, profit margins improved as a result of lower raw product costs and better yield.

La Pizzeria, the premium-price product introduced into test markets early in the year, went into expanded test and did well in the highly competitive, fast-growing retail frozen pizza market. Another new product whose early test-market performance is encouraging is Mrs. Goodcookie, a line of frozen cookie dough offering a convenient way to make fresh cookies with home-baked flavor.

Fiscal 1977 was the first full year in which The Hubinger Company operated as a member of the Heinz family of companies. The year was one of severe competitive pressures as the price of corn syrup fell by considerably more than the price of corn itself. With sugar less costly than in the recent past, corn sweeteners became relatively less attractive on a price basis.

Nevertheless, the future market for corn-based sweeteners is a promising one, and Hubinger took important steps to ensure its profitable participation. The company's marketing structure was realigned on the product manager basis to add strength in sectors promising maximum growth and return on investment. Development work proceeded on a "second-generation" product more closely resembling invert sugar.

Heinz-Canada achieved another year of growth in sales and profits, a noteworthy accomplishment in view of price controls in effect throughout the year and pressures on the food industry from the media, consumer advocates and regulatory agencies. The company maintained its dominant market share for baby foods, tomato juice, beans and spaghetti. Ketchup's market share climbed to a new high in an expanding market.

The underlying strength of Heinz-U.K. was again evident as the company managed to post unit sales gains in most major product lines, maintain operating margins and increase media expenditures in an economic climate that showed little improvement except for a somewhat lower inflation rate. With a sound financial position and a profit level well above that of the British food manufacturing industry as a whole, Heinz-U.K. remains a healthy enterprise with excellent prospects for further gains when Britain's economy recovers.

Elimination of 40 varieties with marginal profitability cleared the way for successful product extensions and new product introductions in which Heinz-U.K.'s marketing muscle could be used to full advantage. Heinz Big Soups became the most successful product extension in years, with volume 60% over target in the first six months.

Low calorie soup, in its second year of distribution, recorded a 45% volume increase during the year. In the over-all soup market, Heinz-U.K. resumed its growth and volume ran well ahead of fiscal 1976.

In the price-competitive baked beans market, Heinz-U.K. raised its market share with the introduction of new Beans Meals. Canned spaghetti, benefiting from the continued success of children's Noodle Doodles introduced last year, also boosted its market share. Pickle sales were the highest in years as existing varieties were extended and a new variety doubled Heinz's market share of the sweet pickle sector.

Ketchup managed to overcome severe price competition and finish the year on a note of rising volume, with further gains expected from test marketing of a new 30-ounce bottle. Another abnormally hot summer boosted sales of salad dressing. Introduction of a new low calorie dressing and national distribution of a celery salad, after good reception in test markets, also aided this product group.

Heinz-U.K. held its share of the baby food market, which has suffered a 10-year decline in volume, paralleling a decline in the British birth rate.

In Italy, as in Britain, a strong Heinz company was able to perform well under an economy subject to stress on many fronts. The Italian infant population, the basic market for Plasmon products, continued to decline. Nevertheless, Plasmon emerged stronger both financially and from a marketing standpoint at the end of fiscal 1977 than a year earlier.

All major product lines either held or improved their market shares, as Plasmon's marketing effort concentrated on expanding the total market for strained baby foods and repositioning the products of Diet-Erba, acquired during the previous year.

In addition, marketing strategy included greater attention to product diversification to lessen dependence upon the declining Italian birth rate. New products launched as part of this diversification program included three varieties of freeze-dried, fruit-based drinks packaged in single-service

envelopes and a powder used to make carbonated water in the home.

Markets served by Plasmon and Diet-Erba brands were more clearly identified, with marketing efforts geared to maintaining Plasmon leadership in the postweaning sector and to building Diet-Erba's share of the preweaning sector. Results at year end were positive in terms of market shares and trade acceptance.

Plasmon retained its dominance in the postweaning sector with 63% of the market, while Diet-Erba held its 28% share of the preweaning market. Milk modifiers increased market share by five points, to 25%. Plasmon baby biscuits, the company's volume leader, bettered the previous year's record-breaking sales.

Economic conditions varied in the four countries served by the Heinz Central Europe organization, with inflation decreasing but still high in France, Holland and Belgium. In Germany, inflation remained at moderate levels. Unemployment was a special problem in Belgium. Despite these economic problems, Heinz retained a strong marketing position in the four-nation area as demand for its ketchup and sauces rose, reflecting ever greater variety in European diets.

Ketchup did well in all markets. An advertising campaign launched in Belgium and in one area of Germany helped expand ketchup's market share to 80% in Belgium and to 12.5% in the German area, the latter figure being nearly triple the share held only two years earlier. Heinz ketchup now has a 50% share in the Paris area and almost that much in Holland.

Neither price controls imposed by the Venezuelan Government nor unreliable sources of supply for raw materials kept Alimentos Heinz from again recording sales and profit gains. During the past three years, net sales have more than doubled.

In Australia, growth was not easy to come by in a weak economy further strained by devaluation of the Australian dollar and continued inflation and unemployment. Major markets for Heinz products showed only marginal gains. Improved performance by Heinz-Australia during the year was due to skillful management of resources, government-approved price increases for Heinz products, and market share gains for major product lines that pushed sales volume ahead of fiscal 1976.

Baked beans, canned spaghetti and canned soup showed modest volume increases, but market shares for these three product lines reached record levels. Heinz-Australia's share of the national baby food market held at an impressive 79%.

Among the year's new products were fish patty mix, a canned convenience product whose success was limited by a salmon shortage; a new tomato variety added to the line of calorie controlled soups launched the previous year; and Heinz- Erin packaged soups imported from Ireland for testing in selected markets. Two bean products and a spaghetti product, introduced in fiscal 1976 as entries in the expanding health food market, went into national distribution in fiscal 1977.

The Stanley Wine Company continued to grow in sales and market share. More than 90% of the total 1977 vintage of Clare will be sold in branded containers, indicating the progress made in changing the company from a seller of bulk wines to a major marketer of more profitable branded products. During the year, the company introduced two new red wines to complement existing lines.

Because of the poor catch, the Greenseas operation was unable to match the previous year's volume for its canned tuna and salmon. Supply problems held down sales of the 9-Lives premium cat food line, but the entire 9-Lives line showed a 30% volume increase for the year.

During most of fiscal 1977, Japan's economy suffered from lower capital spending, consumer caution and declining corporate earnings. The Japanese economic pause was not, however, reflected in the performance of Nichiro Heinz, which recorded a sharp gain in sales and the highest profits in its history.

New products had much to do with this strong performance in a weak economy. Italian sauce was launched nationally to join demi glace and white basic cooking sauces as another strong contender in the retail market, after winning approval from 81% of respondents in market tests. The condensed soup line was entirely relabeled on the basis of a consumer survey.

For the foodservice market, Nichiro Heinz introduced "blue and gold" beef curry without vegetables, giving chefs an alternative to regular Heinz beef curry, which contains potatoes and carrots.

Katherine P. McGill

Employee benefits clerk
Heinz U.S.A.
Pittsburgh

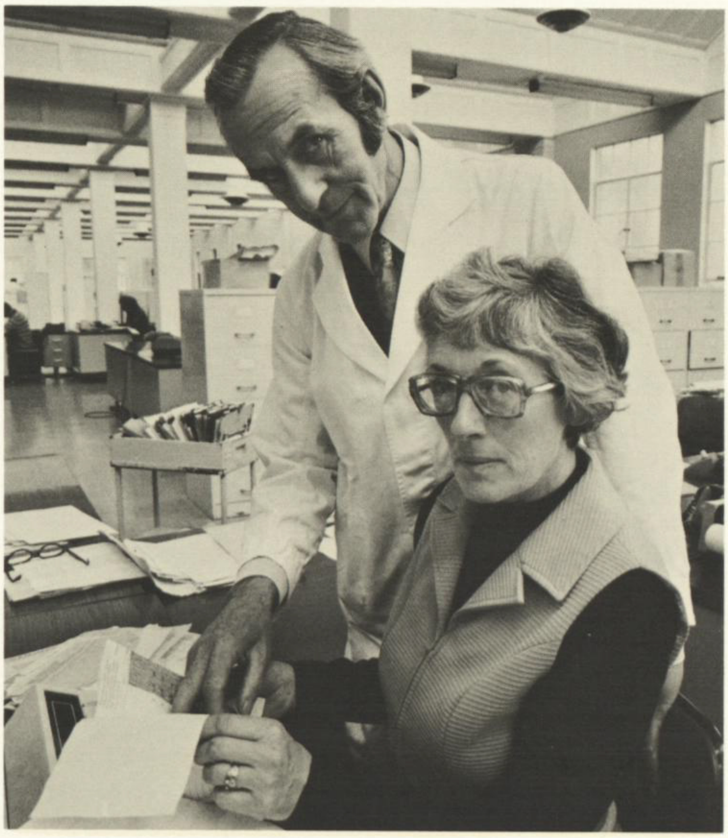
The school sits in Pittsburgh's largest and oldest black community. It is served by the Heinz Youth Motivation Task Force, one of whose members is a trim, fine-featured woman, Katherine P. McGill. / "We try for two things: to keep the children from dropping out of school, and to teach them to cope with society as it is. As it is." / She meets with her middle-school group at regular intervals. In addition, there are special events. "I took one girl to Harrisburg to compete in a pageant. She had never flown before. She had never stayed in a hotel before. That's the point—not that they're poor, though many are, but that they're not exposed to a broad world of experience." / A self-taught model, she has used her avocation to help others. She co-ordinated a fashion show to aid black medical students. Another show raised funds for sickle cell anemia research. / YMTF has had its share of successes. "One boy was suspended regularly for fighting—when he showed up, that is, which was rare. He joined our group, and now he's ready to go on to high school, with his grades way up. Last year, we conducted tennis lessons. Rap sessions they were, mostly, but they did learn, and one girl went on to win the city championship. She had never touched a racket before we took her in hand."

Sylvia J. Reece

Accounts clerk

Gordon "Chris" B. Reece

Superintendent
Harlesden factory
Heinz-U.K.



For Chris and Sylvia Reece, the working day is bracketed by the stray dogs they have taken in for fostering before placing them in adoptive homes. "It's up at five in the morning to do the housework, clean the yard, feed the dogs. 'Mom's going to work,' I say. 'See you later on.' I want their bellies to be comfortable while we're gone. Then, as soon as I get home, we drive to this pasture for a romp. We walk about two hours a day through the woods. They're full of bluebells now, so lovely." / A spread is laid across the Reeces' bed so that the dogs can clamber up to look out the window. "They do get bored, you know, when we're not here. Not unlike children." / The Reeces once bred Great Danes, including a three-time award winner. "I don't like to keep them penned, though. Dogs are part of my family. You wouldn't bench your children all day, would you?" / The Reece cottage is not a large one—a one-bedroom white plaster structure in Chalfont St. Peter. In it have lived as many as 21 dogs at a single time. "That was in the winter of 1971. They were probably all discarded Christmas presents. People don't realize that a puppy will become a dog that has to be exercised, fed and cared for. You can't think of them as so many disposable toys, to be chucked out when the novelty wears off."

Facilities

Efficient use of physical plant and equipment again had high priority in fiscal 1977, as costs continued to rise. In some instances, Heinz companies achieved better efficiency by closing plants and consolidating their functions elsewhere; in other cases, existing facilities were modernized and expanded.

Less than full utilization of the baby food factory at Chambersburg, Pennsylvania led to the closing of that operation and the transfer of its production to Pittsburgh, where extra capacity was available. The practice of packing baby juices on a contract basis was terminated; this product line is now packed in Pittsburgh, with significant savings.

Heinz U.S.A.'s first major application of electronic process controls went into service at the Fremont, Ohio tomato products facility. Fremont was further modernized and expanded, and is now ready to handle ketchup and chili sauce production being transferred from Salem, New Jersey The Salem factory is being converted to a seasonal tomato paste operation.

In another consolidation move, all Heinz U.S.A. West Coast can-making operations at Stockton, California are being shifted to Star-Kist's facility at Terminal Island. Other moves to control costs and improve margins include the closing of an agricultural station at Marigold, Mississippi and the transfer of its functions to another experimental operation, and the closing of a number of distribution centers.

The modernization and upgrading program provides for careful attention to quality control. Heinz U.S.A. instituted a thermal-marking system to further ensure proper sterilization of cans. A national food processing publication cited the company as the first major food manufacturer to adopt this system on a 100% basis.

Pickle production at Tracy, California was modernized and expanded. Important advances in yield and product quality are being achieved through a new method of cucumber brining that went into use at all Heinz U.S.A. pickle operations at year end.

The Mellody Lane facility at Lake City, Pennsylvania, acquired last year, has been fully integrated into the Heinz U.S.A. system. In addition to the line of frozen desserts, which was one of the marketing successes of the year, the plant will soon begin to manufacture Ore-Ida's new line of Mrs. Goodcookie ready-to-bake cookies.

The growing frozen food business is reflected also in a new pizza plant that went into operation near Atlanta, doubling existing pizza capacity.

The worst winter in history at many Heinz U.S.A. locations called for ingenuity in solving fuel problems. Shortage of natural gas closed down the Georgia pizza plant for a time, but conversion to liquefied natural gas is expected to avoid a similar experience in the future. In Pittsburgh, where the rivers that normally bring fuel oil to the Heinz factory froze over, the Heinz operation was able to convert to coal, thus avoiding shutdown.

At Star-Kist, several capital improvements were completed or under way. Construction began at Terminal Island on a new plant to pack mackerel, squid and pet food. In Puerto Rico, Star-Kist proceeded with plans to build a canned goods warehouse and entered into a joint agreement with other packers to build a flotation system that will meet EPA water regulation requirements.

Ore-Ida undertook a number of projects to improve customer service, expand production and make better use of raw product waste. Four regional distribution centers were opened to augment service provided by centers at the main factories. A pizza factory at Massillon, Ohio was purchased and then expanded to handle production of Ore-Ida's La Pizzeria, as well as existing pizza business.

At the Ontario, Oregon factory, a new refining process was implemented to produce dextrose from recovered potato starch. Dextrose is used to give a golden color to frozen french fried potatoes. At the Burley, Idaho factory, equipment was installed to upgrade raw potato waste so that it can be sold as raw starch rather than less profitable cattle feed.

The need for greater research and monitoring capabilities for existing product lines and new product development is being met by Ore-Ida's new Corporate Microbiology Laboratory, which can handle a wide range of microbiological testing and other functions that factory laboratories are not equipped to handle.

Rapid progress was made in the expansion program at The Hubinger Company. A new facility for producing a full line of corn sweeteners and for expansion of corn grinding capacity is under construction and scheduled for completion before the end of the current fiscal year.

More efficient production and cost savings wherever possible were essential concerns at Heinz-U.K., in view of continued British inflation at rates higher than in most other industrialized countries. Improvements at all three major factories indicate the company's ingenuity in finding ways to produce more and better, at less cost.

At the Harlesden factory in London, new facilities were installed to improve cost control systems, expand cold storage areas, reduce labor costs and waste in bean processing, and add can storage space. Among other improvements were equipment to reduce maintenance costs, provide better weighing facilities and improve the purification of water used in soup production.

At the Kitt Green factory in northern England, a major investment was made for production of the new and highly successful Big Soup line. Other improvements included equipment to improve sterilizing operations, reduce handling and distribution costs, produce new bean varieties, and lower the risk of contamination in can manufacture.

Projects completed during the year at the Standish factory concentrated on the improvement of working conditions.

Our Italian company, Plasmon Dietetici Alimentari S.p.A., took major steps to achieve greater manufacturing flexibility through integration of production facilities at its three factories. For example, each factory now has the capacity to produce all types of Plasmon biscuits. As part of a program to transfer production handled by co-packers to Plasmon's own facilities, all Diet-Erba strained foods are now produced at the Latina factory, while Plasmolac infant milk is manufactured at the Ozzano Taro facility.

Modernization of the Milan factory continued, with installation of new manufacturing lines for biscuits and for milk-based cereals and powdered milks. Shrink-wrapping lines also were added. The waste disposal and fire protection systems were upgraded and factory working conditions were improved.

The Ozzano Taro factory installed equipment to increase milk production and to produce Ergocappuccio, a barley, malt coffee-based milk modifier for schoolchildren. It improved its waste disposal system to comply with new laws on industrial water pollution, and instituted measures to provide greater safety for workers.

The Central Europe organization's factory at Elst, Holland increased its capacity by installing a new labeling operation and expanding and relocating three lines for manufacturing products in glass containers. A program to automate and centralize a master information system for the four countries in the organization was completed during the year.

Alimentos Heinz undertook major expansion of its capacity to process tomato-based products and baby foods for the Venezuelan market.

Recent expansion of capacity enabled Heinz-Australia to enter into a highly advantageous agreement to pack a competitor's products at the Dandenong factory. Under the agreement, Heinz will manufacture, label, pack and ship most of the competitor's products, which are sold under the P.M.U. brand name. Heinz, however, will not be involved in marketing or selling. Integration of P.M.U. production into the Dandenong facility was completed at year end.

Most of Heinz-Australia's capital investment during the year involved The Stanley Wine Company and the Greenseas operation. Stanley expanded its vineyards and installed additional fermentation and storage tanks to meet the need for increased capacity as it continues its conversion from a producer of bulk wines to a marketer of branded products. At Greenseas, improvements included a new pet food line and a line to produce a new tuna product slated for introduction later in the current fiscal year.

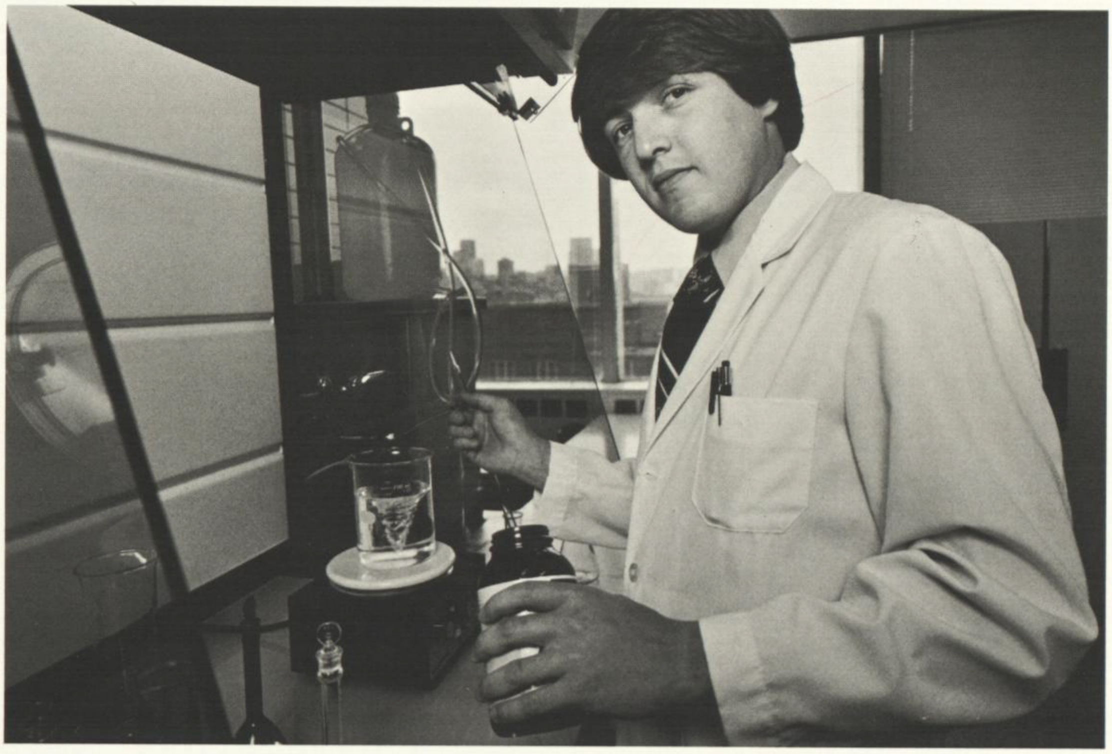
Virginio Sonvico

Large distribution sales manager responsible for sales to supermarkets and hypermarkets
Plasmon, Milan

Impatiently, Virginio Sonvico hurries up three flights of marble stairs to his neat apartment in Milan. Donning his wife's blue apron, he pushes through double doors to the balcony. There, in stacked wire cages, wait the objects of his passion—English border canaries, 10 couples and their young, chirping at his arrival. / "Yes, it is a passion. I began with a bird called Lizard, because it looks like a lizard. All 20 died. Then someone told me of the English border breed, of a very sweet character, also rare and beautiful." / He arises half an hour early every morning to feed the birds. "It is my own formulation. They eat little quantity, but they need protein. It must be good, I think, because they have won prizes in shows." / Each year, he chooses the best of his collection for further breeding and sells the others. "This intense yellow, it came from a cross between a yellow and a frost-colored. It is like mixing paints." / At the conference table, he is a formidable presence in the chair. He leans his large torso forward, drums his finger pads on the wood surface, wags an admonitory pen, delivers an endless flow of words, his voice rising and falling as he conducts an orchestration of response. It seems an exhausting performance. "You see why I go to the birds. It is my first hobby, although I have others. The birds relax me the most. I have to talk to people so much when I negotiate." He coaxes the bird in his cupped palms to eat. When it does, he strokes its head affectionately. "Bravo!" he cries.

Charles W. Provost

Food research technician
Heinz U.S.A.
Pittsburgh



Charles W. Provost dreamed of becoming a veterinarian. "I never made it. There are only 18 vet schools in the U.S., and the turndown rate is about twice that of medical schools." / He now satisfies his love of animals by breeding and raising pacers and trotters. "The beauty of this sport is that it lets anyone participate who wants to. I couldn't exercise a thoroughbred with my 160 pounds, but when you're on wheels it doesn't matter." / "We're lucky to have access to this place." "This place" is The Meadows, a harness track complex set in the rolling hills south of Pittsburgh. "There's a pool for the horses—15 minutes of swimming is worth seven miles of trotting. There's a whirlpool bath. Operating tables. It's not true, by the way, that a broken leg means the end of the horse. We've had some that have broken bones and come back to race another day." / Seated easily in the jog cart, he clucks and yells to control the movements of his three-year-old Trotwood Dusty, a brown colt with four white legs, a rare phenomenon. "Yes, he's a good-looking animal, but the track doesn't pay off on looks." / Are horses intelligent? "I won't get into that argument. They have—well, horse sense. And emotions. When the great stud Adios was here, he fell in love with a pony and he was miserable unless he could see her every minute. I don't have to tell you he got what he wanted. They put a closed-circuit TV screen in his stall so he could watch her. He was worth it."

Land and Sea Resources

The weather was as unsettled as the economy in many Heinz marketing areas during the year, but once again purchasing skills and a diversified procurement base provided all the raw materials needed for an expanded volume of business.

In the United States, a severe drought followed by unusually heavy harvest-time rains in California, the nation's major source of tomatoes, resulted in a short crop. Heinz U.S.A. normally obtains about two-thirds of its tomato requirements from California, but this percentage is well below the dependence of competitive companies on that state. Even though that crop was down by 28%, Heinz U.S.A. got more than enough tomatoes for its needs because it established sources in the East and Midwest as well. Thanks to the foresightedness of its purchasing experts, the company had a large carry-over stock bought at lower prices during the previous year, when supplies were abundant.

Future supplies of tuna were uncertain at year end. On June 2, 1977, the U.S. House of Representatives passed a bill, H.R. 6970, increasing the 1977 porpoise quota to 68,910. The legislation mandates a substantial reduction each year thereafter, unless the American Tunaboat Association files, each year, a request for "exceptional relief" from that requirement. The bill also contains such provisions as an assessment of $32 for each porpoise taken by a tuna skipper in excess of the industry average per ton of yellowfin taken. The legislation now goes to the Senate, where action is expected soon. The uncertainty of final legislation, as well as pending court decisions, clouds the entire industry's procurement situation.

The drought that reduced the California tomato crop also hit the Western states that supply potatoes for Ore-Ida. However, the ability of most of the growers to use deep wells to water their crops ensured an adequate supply for Ore-Ida's processing plants. Multiyear contracts worked out with growers, permitting price adjustments to reflect changes in the cost of seed and fertilizer, are expected to stabilize prices and supplies, permitting growers and Ore-Ida to plan more efficiently.

Heinz-Canada's agricultural research group made progress in developing direct tomato seeding techniques that can cut in half the time required for emergence of new tomato plants. This innovation is expected to improve quality and yield in late harvest varieties suitable for Canadian growing conditions. Research was under way also on new strains suitable for tomato paste production. By means of a seminar for contract growers, Heinz-Canada shared the results of agricultural research with its suppliers.

One of the hottest, driest summers on record curtailed the supply and quality of many crops on which Heinz-U.K. depends, and indirectly resulted in shortages of glass and cans by stimulating consumption of beverages. The exceptional summer was followed by heavy rains and hard frosts that impeded harvesting of some crops and lowered the quality and yield of others; however, additional supply sources were developed in growing areas less seriously affected by the abnormal weather.

Evidence of renewed growth in mushroom consumption led to expansion plans by W. Darlington and Sons, a major fresh mushroom grower in the U.K., and its associated company in France, Somycel. To help meet higher demand in the world market, Darlington formed a technical service for mushroom growers and negotiated for development of mushroom-growing facilities in eastern Europe.

Tomato production at Heinz Sagima in Morocco exceeded planned goals in terms of both quantity and quality. A program to train and assist tomato-growing farmers in the area was continued with considerable success. Production will be increased in the current fiscal year.

Tomato supplies in Venezuela improved, thanks to increased plantings stimulated by high prices paid to growers. Alimentos Heinz expects to meet all its tomato requirements locally in the not too distant future.

In Australia, the land was reasonably generous with its yield, but the sea was not. The tuna and salmon catch off the East Coast was the lowest ever, with resultant shortages in canned fish products packed by Heinz-Australia. The tomato harvest, however, was satisfactory, and the grape crop was of high quality, although somewhat reduced in yield because of dry weather.

Public Service

Obviously, it is not possible to list here all the activities pursued by Heinz companies in the name of public service: the donations of money, time and goods, the support of community organizations such as United Funds, the direct aid rendered to deserving groups and individuals. The following examples are only highlights in what could be an almost endless compendium.

At a time of relatively high minority unemployment in the U.S. and national recognition of the need to help disadvantaged groups to advance, Heinz U.S.A. expanded its Minority Vendor Program, which encourages growth among enterprises in which minority businessmen hold at least 50% ownership. During fiscal 1977, the company's purchases from 40 such enterprises increased by 10%, to more than $1 million.

An example of the success of this program is the purchase during the year of smoked hams from Yankton Sioux Indians at their South Dakota reservation. The hams are used in making the split-pea-with-ham soup variety sold to private label and foodservice customers.

The year saw further progress in the long-term effort to protect and improve the environment where company operations are located. Projects included upgrading of water treatment and waste disposal systems at two locations and installation of a sampling and flow measurement system at another. Two Heinz U.S.A. factories partially converted to fuel oil use to lessen their dependence on scarce natural gas needed for residential consumption.

Ore-Ida continued its student aid program, with 14 scholarships awarded to nine colleges in areas where the company has operations. All scholarships are for study in fields related to the frozen food industry. Ore-Ida also continued its sponsorship of young peoples' athletic programs and supported Junior Achievement programs.

The Hubinger Company was active in environmental projects and in direct support for community activities. Work began on a $5-million environmental control program that includes a primary treatment facility for waste water and in-plant systems for air and water pollution control.

Heinz-Canada's research staff began a three-year study of infant nutrition, in co-operation with the National Research Council, the Canadian Pediatric Society and public health authorities. When published, results of the study will be available as guidelines for more effective nutrition education and to assist the food industry in developing products of maximum nutritional benefit for young Canadians.

Heinz-U.K. actively supported a fund-raising campaign to help the National Children's Home build its 57th residence. Heinz guaranteed the first £20,000 to be raised, the largest single sum ever received by the N.C.H. In addition, the company donated a penny for every Heinz label either sent directly to a popular radio personality sponsoring the drive or placed in special collection boxes where Heinz products are sold. By the end of the year, land for the new home had been purchased.

Heinz-U.K. continued its policy of direct contributions to organizations performing worthwhile services to the British people. More than £25,000 was given to organizations serving areas as diverse as the arts, community relations, medicine, education and food technology. In addition, contributions of food products went to various charities.

Plasmon continued to be a major factor in disseminating nutritional and medical information to pediatric specialists in Italy. The company sponsored a medical congress in Venice, a forum in Milan on audiology problems as they affect children, and a meeting held in co-operation with the Scientific Journalists' Union on the importance of hygienic safety in dietetic foods for children.

Plasmon awarded two postgraduate study grants to young doctors wishing to specialize in gastroenterology and two grants for pediatric studies.

Alimentos Heinz, in co-operation with the Government of Venezuela, expanded its ongoing pilot project for tomato planting at two prison farms where the company provides technical assistance to inmates.

Heinz-Australia aided victims of an earthquake and tidal wave that struck the Philippines. Fifteen thousand cases of baby foods were donated and distributed through the Philippine government's Department of Social Welfare. Financial aid and 4,000 cases of Heinz products went for aid to Bangladesh.

Heinz-Australia worked with the local government and another winery to eliminate an environmental problem that had existed at Clare for nearly a century. A waste water treatment and disposal system was set up to handle waste generated by the operations of The Stanley Wine Company at Clare.

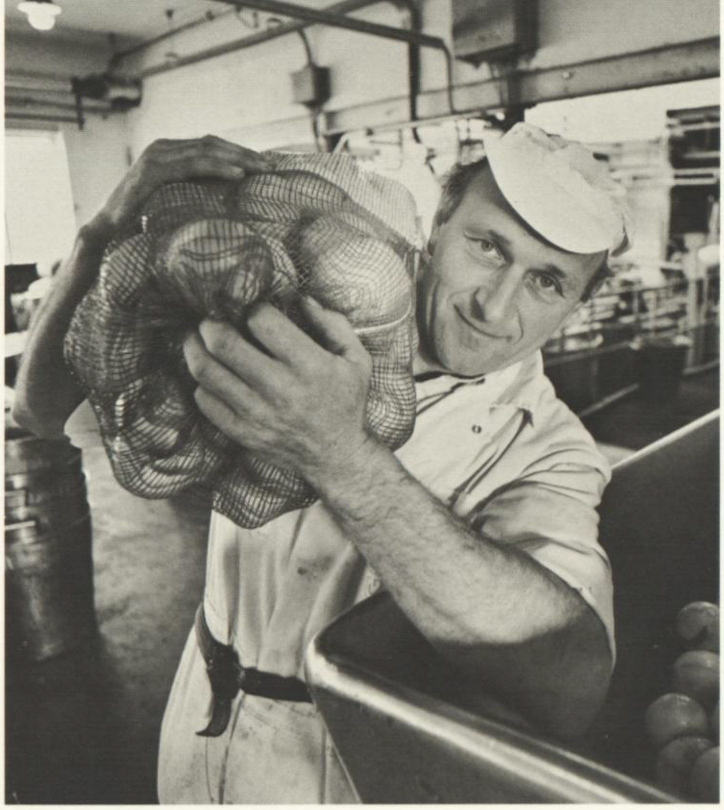
Celia Loya Ochoa

Line supervisor
Star-Kist Foods
Terminal Island

They move through the tidy split-level house with easy familiarity, having been here many times before. They interrupt the bustle often to touch, kiss, embrace. It is mother's birthday. Naturally, all the children and grandchildren must be on hand. / Mexican-born Celia Ochoa has been twice president of the Eagles Auxiliary, president of the Opti-Mrs. Club, chairman of the Los Angeles Harbor Area Red Cross and Community Chest. Her life focuses on people, and particularly on her family. "All five children we sent to college. We would not let them work, not even in vacation. If they get a pay check, they become happy and school is forgotten." / All five have turned out well, settled into good jobs and secure homes, above all keeping contact. "I thank God there is so much love one to the other. Never any bad word, in English or Spanish." / More than 80 men and women work under her supervision. "Just like my children, I say. You do good, I am proud of you. You do bad, I tell you." / They huddle close for the group portrait, three generations. On one wall of the living room hang framed photographs, 27 in all, some faded with age. This will be the 28th. Others will follow. / The glasses lift in a toast: "Thirty more years." It seems a reasonable petition to a God they have served well.

A. A. Uyttewaal

Ingredient weigher
Elst factory
The Netherlands



A. A. Uyttewaal deals in large quantities. At work, it may be more than 20,000 pounds of potatoes a day and almost as many onions. At his nearby home, it is 12,000 trees yielding more than 350,000 pounds of apples annually on 16 acres of land—this rich land whose fertility the industrious Dutch have preserved for at least 2,000 years. / "A good result is there because the whole family works on it." That means his wife and four sons, ranging in age from 9 to 15. "My wife works mostly at the harvest, but if a boy is not available, she can drive a truck as well as any." / All the apples are of the "eating" variety: Golden Delicious, Cox Orange, James Grieves. Last Christmas, he sold several tons for export to Iran, where they are considered an exotic treat. Each apple was wrapped in paper. / "I used to work for others, but then I reviewed my situation and decided to get young trees of my own. Special trees, not too high, so we don't need ladders to pick the fruit. Now we have what you see." / There is a tractor for moving pallets. There is an irrigation system. There is a cooling house to keep excess apples until prices are favorable. The investment is heavy. "But I have paid off the mortgage on this place. And in 1969, when insects cost me almost the whole crop, I did not have to borrow. I had saved."

Financial Section

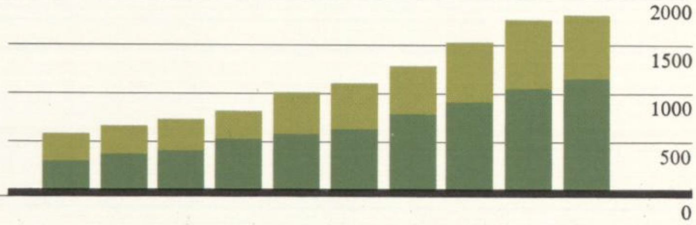
Financial Section Index

Form 10-K Information

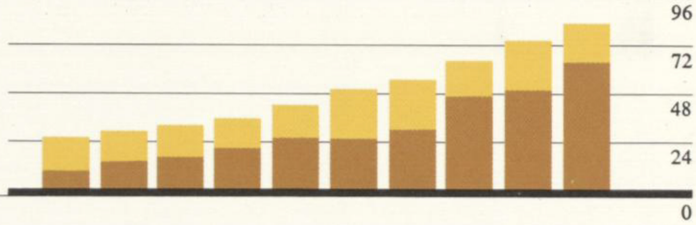
The financial statements appearing in this Annual Report to shareholders are substantially the same as those which the company was required to file with the Securities and Exchange Commission in its Annual Report on Form 10-K. In compliance with SEC regulations, the Form 10-K Report contains certain supplemental financial information and other related data. The company will furnish a copy of Form 10-K without charge upon written request. Such request should be directed to Corporate Public Relations Department, H. J. Heinz Company, P.O. Box 57, Pittsburgh, Pennsylvania 15230.

Financial Charts

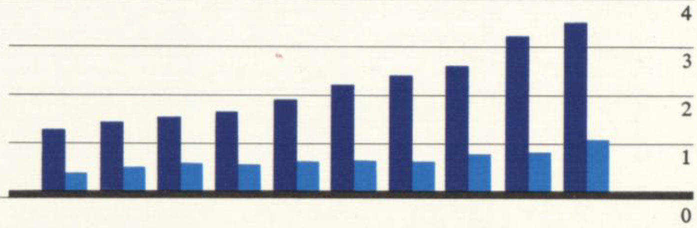
Sales
in millions of dollars
■ foreign
■ domestic
10-yr compound growth 11.5%
5-yr compound growth 12.9%



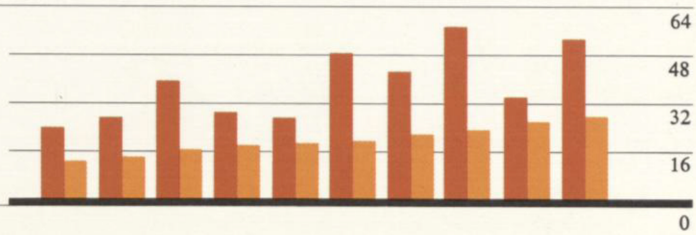
Income
in millions of dollars
■ foreign
■ domestic
10-yr compound growth 13.7%
5-yr compound growth 13.4%



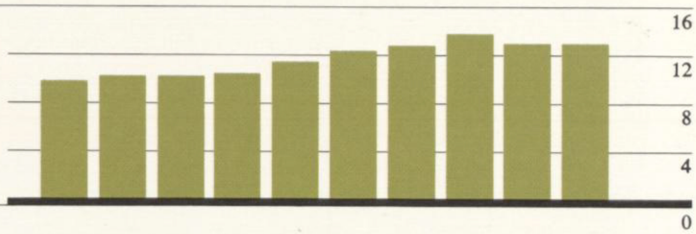
Earnings and Dividends per Common Share
in dollars
■ earnings per share
■ dividends
10-yr compound growth: eps 10.9%, div 10.3%
5-yr compound growth: eps 12.4%, div 9.5%



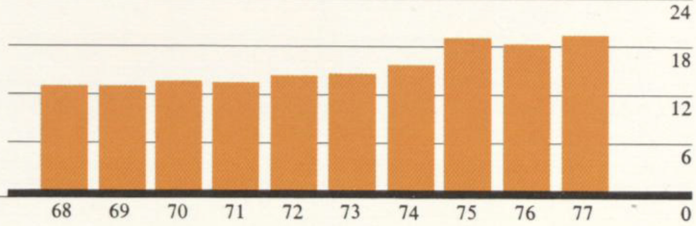
Capital Expenditures and Depreciation
in millions of dollars
■ capital expenditures
■ depreciation



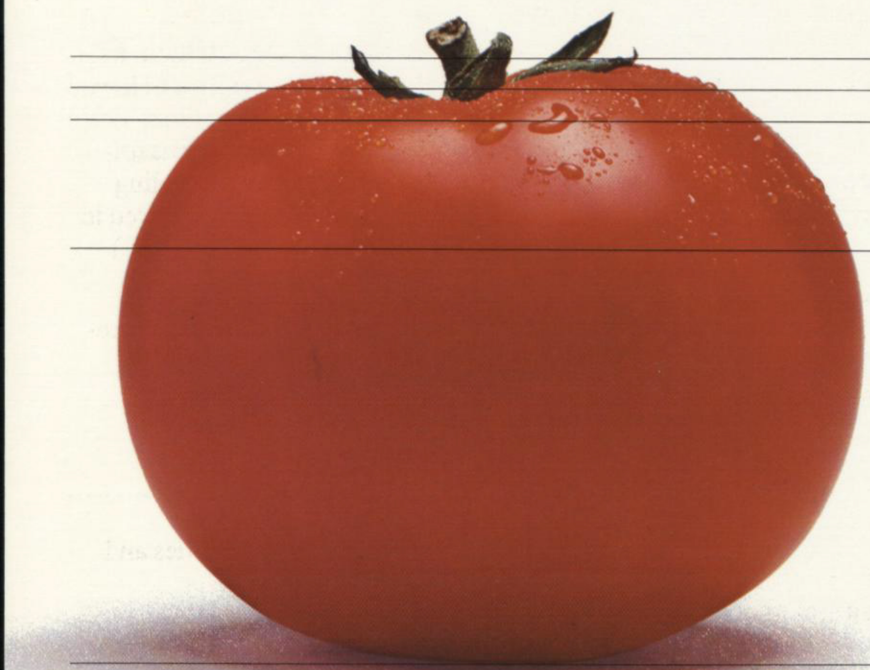
Return on Average Shareholders' Equity
in percent



Pretax Return on Average Invested Capital
in percent



Utilization of Sales Dollar



For Shareholders
1.5¢ Dividends
3.0¢ Reinvested

Income Taxes
3.8¢

Wages and Employee Benefits
20.1¢

Ingredient, Packaging and Other Costs
71.6¢

Financial Review and Management's Analysis

H. J. Heinz Company and Consolidated Subsidiaries

General

This Financial Review and Management's Analysis contains a discussion of operational results for 1977 compared with 1976, and for 1976 compared with 1975. It includes explanations of variations in selected accounts within those years, a discussion of significant elements relating to the company's financial position, and other financial and operating information. The comments that follow in this section should be read in conjunction with the Consolidated Financial Statements, Notes to Consolidated Financial Statements and the 10-Year Summary of Operations and Related Data.

A 3-for-2 common stock split was approved by shareholders and became effective during the second quarter of the current year. In connection with this stock split, the company increased the authorized number of common shares, changed each two shares outstanding into three shares, and changed the par value of its common stock. All financial information in this Financial Review, as well as all financial information presented elsewhere in this annual report, has been restated for the 3-for-2 common stock split. For additional information on this subject, see note 4 of the Notes to Consolidated Financial Statements.

During the fourth quarter of 1977, the company reclassified certain promotional allowances. This has resulted in the restatement of sales, gross profit, and selling and other expenses including advertising expenses for all previously reported periods. This restatement has had no effect on net income. For additional information regarding this matter, see page 41 of this Financial Review.

Sales

1977 vs. 1976: Sales for 1977 amounted to $1.8 billion, an increase over last year of $119 million, or 6.8%. This marks the 14th consecutive year of sales growth, with sales doubling since 1971. The annual compound growth rate in sales has been 11.5% for the past 10 years and 12.9% for the most recent five-year period.

Sales by domestic companies, including those in U.S. possessions, were $1.2 billion, an increase of 13.7% over last year's domestic sales of $1.0 billion, and currently represent 62% of consolidated sales, compared with 59% in 1976. Foreign affiliate sales were $700.9 million, a decrease of 3.0% from last year's $722.5 million. This decrease is the result of lower foreign exchange rates used to translate foreign sales, which adversely affected reported dollar sales by $105.4 million.

Higher volume accounted for approximately one-third of the increase in domestic sales, which included the results of Hubinger for a full year in 1977, compared with six months in 1976. The remainder of the domestic sales increase was attributable to higher prices initiated to offset inflationary cost pressures. Moderate gains in sales volume were registered by foreign affiliates as consumer income continued to be adversely affected by high inflation. Although price increases were implemented by most foreign affiliates, the increase in sales in foreign currencies when translated into U.S. dollars was more than offset by lower average exchange rates, as described above.

1976 vs. 1975: Sales in 1976 amounted to $1.7 billion, an increase of $185 million, or 11.8%, after the effect of lower exchange rates, which reduced sales by $63.0 million. The increase in terms of U.S. dollars was accounted for as follows: 29% due to volume, 32% due to increased selling prices, and 39% due to inclusion of Hubinger (acquired in 1976) for six months and Diet-Erba (acquired in 1975) for the entire year.

Domestic sales were $1.0 billion, up by 14.9%, and represented 59% of consolidated sales. Foreign sales rose by 7.7%, from $671.0 million to $722.5 million.

Cost of Products Sold

1977 vs. 1976: Cost of products sold amounted to $1.3 billion, an increase of $34.0 million, or 2.8%, from last year, which compares favorably when measured against a 6.8% increase in sales. The gross profit percentage improved from 29.8% in 1976 to 32.5% this year and was favorably affected by increased volume, effective cost control programs and better sales mix, offset by higher costs of basic ingredients and packaging materials, utilities and other costs.

1976 vs. 1975: Cost of products sold went up by 11.9%, from $1.1 billion to more than $1.2 billion. The dollar increase was due to greater volume and the higher cost of ingredients, packaging materials and labor.

Selling and Other Expenses

1977 vs. 1976: Selling and other expenses amounted to $433.7 million, an increase of $56.1 million, or 14.9%, over last year's $377.6 million. Higher advertising expense, which rose by $39.6 million, or 89.1%, accounted for nearly three-fourths of this increase and reflects inflation and expenditures to support the introduction of new products and to improve the company's market shares on a worldwide basis. Also contributing to the rise in selling and other expenses were increased storage and freight, selling commissions and other expenses associated with higher volumes.

1976 vs. 1975: Selling and other expenses climbed from $331.2 million to $377.6 million. This increase of $46.4 million, or 14.0%, was due primarily to higher volume and inflationary cost increases in all expense categories. Advertising expenses on a restated basis rose by 15.6%, or $6.0 million.

Other Income (Deductions)

Other deductions for 1977 amounted to $0.1 million, compared with other income of $8.6 million last year. A summary of the major items included in other income (deductions) follows:

In thousands	*1977*	*1976*
Interest income	$ 9,753	$8,103
Unrealized currency losses	(10,239)	(824)
Other items, net	356	1,327
	$ (130)	$8,606

Unrealized currency losses resulted from the use this year of lower exchange rates to translate foreign balance sheets than those used in 1976. Unrealized currency losses included the effect of valuing inventories at historical rates, which resulted in unrealized losses of $15.6 million and $26.9 million for 1977 and 1976, respectively. Realized exchange gains and losses were not significant in either year.

Interest Expense

1977 vs. 1976: Interest expense of $16.3 million decreased by $6.6 million, or 28.7%, from last year's amount of $22.9 million. This decline was due to a substantial reduction in average short-term borrowings, from $114.9 million last year to $63.0 million this year, and a reduction in the average interest rate from 9.4% to 7.7%.

1976 vs. 1975: Interest expense declined by 26.2% to $22.9 million. Average short-term borrowings for the year were reduced from $185.7 million to $114.9 million. In addition, the average interest rate on such borrowings fell from 11.3% to 9.4%.

Provision for Income Taxes

The provision for income taxes increased by 32.5%, from $53.7 million to $71.1 million. The company provides for taxes at the statutory rates in effect on pretax income reported for financial statement purposes. Accordingly, the increased tax provision reflects higher pretax income and an effective tax rate that rose from 41.4% to 45.5%. The increase in the effective tax rate is the result of improved earnings in higher tax rate countries plus the inclusion of the unrealized currency loss of $10.2 million in pretax income for which no tax benefit is reflected. A more comprehensive discussion of income taxes for 1977 and 1976 appears in note 6 of the Notes to Consolidated Financial Statements.

Net Income

1977 vs. 1976: Net income for 1977 amounted to $83.8 million, an increase of $9.8 million, or 13.3%, over last year's net income of $74.0 million. This increase was achieved after a charge of $10.2 million for unrealized currency losses this year versus a charge of $0.8 million last year. Net income has grown at an annual compound growth rate of 13.7% for the past 10 years and 13.4% for the past five years.

Domestic net income for 1977 was $65.4 million, an increase of 34.5% over last year. This increase was the result of improved sales and profit margins and reduced interest expense. Domestic net income represented 78% of consolidated net income, compared with 66% in 1976 and 35% 10 years ago. Excluding foreign currency losses, domestic income would have been 70% of consolidated net income.

Foreign affiliates contributed $18.4 million in net income for 1977, compared with $25.3 million last year, a decrease of $6.9 million, or 27.3%. Although every foreign affiliate had an increase in net income in its own currency, the charge for unrealized currency losses adversely affected the affiliates' contribution to consolidated earnings in 1977. Excluding this item, foreign net income would have risen by 9.5% over last year.

1976 vs. 1975: Net income in 1976 of $74.0 million was $10.1 million, or 15.8%, higher than the previous year's income from operations and $7.4 million, or 11.1%, higher than the previous year's net income, which included a nonrecurring gain of $2.7 million from the excess of insurance proceeds received over the book value of assets destroyed in connection with fire losses at a domestic subsidiary.

Domestic net income of $48.7 million was 9.1% higher than 1975's domestic operating income of $44.6 million and 2.8% higher than 1975's domestic net income of $47.3 million, which included the nonrecurring gain discussed above. A somewhat slower rate of growth in domestic earnings was primarily due to increased expenditures for advertising in connection with new product introductions. Domestic net income represented 66% of consolidated income, down from 71%. Earnings from foreign operations were $25.3 million, up by 31.4% from $19.3 million. The contribution of these earnings to consolidated income went from 29% to 34%.

Earnings per Share

1977 vs. 1976: Primary earnings increased by 34 cents, or 10.6%, to $3.55, from $3.21 in 1976 as restated for the common stock split. The annual compound growth rate has been 10.9% for the past 10 years and 12.4% for the past five. Fully diluted earnings per share were $3.47 in 1977, compared with $3.15 last year, an increase of 10.2%. The increase in primary earnings per share this year over last year of 10.6% is less than the increase in net income of 13.3% because of the additional preferred dividend requirements, as discussed in the following section, entitled "Dividends."

1976 vs. 1975: Primary earnings in 1976 were $3.21, an increase of 14.2% over the $2.81 earned from operations and 9.6% over the $2.93 net earnings, which included 12 cents from a nonrecurring gain.

Dividends

During 1977, the quarterly dividend paid on the common stock was increased twice—first to 27 cents per share and then to 30 cents per share. These became the 12th and 13th increases in the past 10 years. The amount paid for the year was $1.06⅔, compared with $.86⅔ per share last year. All dividends have been restated for the 3-for-2 common stock split, which is discussed elsewhere in this Financial Review and in note 4 of the Notes to Consolidated Financial Statements. On an annualized basis, the current quarterly dividend rate of 30 cents per share would result in a payout of $1.20 per share.

Preferred stock dividends for the year were $3.2 million, as compared with $1.0 million last year. This year's amount includes a full year's dividend on the new $1.70 third cumulative preferred stock, issued in connection with the Hubinger acquisition in 1976, whereas last year's amount included the dividend for only a portion of the year.

Information on quarterly dividends is presented in this Financial Review within the section entitled "Stock Market Information."

Geographic Summary
The company's operations are geographically distributed around the world as follows:

In thousands of U.S. dollars	*Sales*	*Operating Income*	*Net Assets Employed*
1977			
Foreign:			
North and South America	$ 149,895	$ 17,935	$ 58,981
Western Europe	477,732	36,649	151,104
Australia and Japan	73,321	7,522	19,851
Total Foreign	700,948	62,106	229,936
Domestic	1,167,872	110,721	425,595
Consolidated	$1,868,820	$172,827	$655,531
1976			
Foreign:			
North and South America	$ 133,944	$ 15,868	$ 51,133
Western Europe	518,052	40,452	151,502
Australia and Japan	70,484	7,481	14,732
Total Foreign	722,480	63,801	217,367
Domestic	1,027,211	80,019	381,246
Consolidated	$1,749,691	$143,820	$598,613

Quarterly Results

The following table shows sales, gross profit, net income, and earnings per share for each quarter of the past two years. Quarterly results have always been influenced by seasonal factors inherent in the company's business, and comparisons between quarters have always been most meaningful when made between the same quarters of different years. More recently, the required recognition of unrealized foreign currency fluctuations in income has resulted in an additional factor influencing quarterly earnings.

In thousands except earnings per share	*Sales*	*Gross Profit*	*Net Income*	*Earnings Per Share*
1977 by Quarter				
First	$ 429,560	$129,704	$15,286	$ .64
Second	471,552	140,367	19,924	.84
Third	441,194	137,916	17,334	.73
Fourth	526,514	198,573	31,272	1.34
Total	$1,868,820	$606,560	$83,816	$3.55
1976 by Quarter				
First	$ 401,481	$115,805	$15,232	$ .67
Second	430,251	128,541	15,511	.68
Third	427,785	127,288	13,837	.61
Fourth	490,174	149,828	29,380	1.25
Total	$1,749,691	$521,462	$73,960	$3.21

During the fourth quarter of 1977, certain promotional allowances previously charged to advertising were reclassified as a reduction of sales. Accordingly, sales and gross profit for previously reported periods have been restated with no effect on net income. These are restated for the affected quarters of 1977 and 1976 in the following table.

	Sales		*Gross Profit*	
In thousands	*As Reported*	*As Restated*	*As Reported*	*As Restated*
1977 by Quarter				
First	$ 463,453	$ 429,560	$163,597	$129,704
Second	510,054	471,552	178,869	140,367
Third	473,569	441,194	170,291	137,916
1976 by Quarter				
First	$ 434,313	$ 401,481	$148,637	$115,805
Second	464,018	430,251	162,308	128,541
Third	460,431	427,785	159,934	127,288
Fourth	523,597	490,174	183,251	149,828
Total	$1,882,359	$1,749,691	$654,130	$521,462

Return on Shareholders' Equity and Invested Capital

This year's return on average shareholders' equity was 13.4%, the same as last year. The return this year was affected by the increase in the average shareholders' equity upon which net income is measured—$627 million this year, compared with $551 million last year—resulting from the full year's effect of the issuance of the $1.70 third cumulative preferred stock in connection with the Hubinger acquisition, and the further reduction in the company's debt/invested capital ratio. The return on invested capital has improved from 10.8% last year to 10.9% this year.

Capital Expenditures

Capital expenditures for 1977 increased substantially over the prior year, to a level of $53.7 million, compared with $34.7 million. Approximately 70% of this year's expenditures were for domestic operations, whereas for the last several years expenditures were split almost equally between domestic and foreign operations.

The Hubinger subsidiary invested $10 million toward the completion of a $30-million corn grinding and high fructose syrup facility, which is scheduled for completion in 1978. Other major domestic capital expenditures include construction of warehouse and cold storage facilities in California and the purchase of a production facility in Ohio.

Foreign capital expenditures continued at about the same level as last year and include production expansion and modernization, environmental controls, and replacement of existing facilities. These expenditures are generally funded locally by the subsidiaries.

Capital expenditures related to environmental and pollution control facilities approximated $2.4 million in 1977, compared with $2.0 million in 1976. These expenditures for 1978 and 1979 are estimated to be $5.9 million and $3.0 million, respectively. Compliance with environmental and pollution control regulations is not expected to have a material impact on the company's operations or its financial position.

Working Capital

At the end of 1977, working capital amounted to $472.2 million, an increase of $37.6 million over last year. This additional working capital consisted of increases in cash, short-term investments and inventories, partially offset by increases in payables and the liability for current income taxes. The increase in the tax liability is directly related to the higher pretax earnings. The increases in payables and inventories are due to the higher level of sales. Cash and short-term investments made up 20.7% of current assets, compared with 16.8% last year. The current ratio of 2.25 was relatively unchanged from a year ago. An analysis of changes in working capital is presented as part of the Statement of Consolidated Changes in Financial Position.

Financing

During 1977, the company's Australian subsidiary borrowed the equivalent of $6.6 million. This borrowing represented the balance available under a 1976 agreement with a group of six Australian banks and financial institutions. The agreement calls for a four-year term with an interest rate of 1.25% over the short-term Australian bill rate plus a commitment fee of ½%. At the end of 1977, the equivalent of $13.2 million had been borrowed under this agreement.

A September, 1976 agreement between the company and the Development Authority of DeKalb County (Georgia) provides for the borrowing of $2.4 million to be used in connection with the company's operation in that county. The agreement provides for a maturity date of September 1, 1991, with interest at 6% payable semiannually commencing on March 1, 1977. Early redemption is permitted on or after September 1, 1986 in whole or in part at specified redemption prices. At April 27, 1977, the aggregate principal outstanding was $2.4 million.

Term loans equivalent to $12.8 million were repaid without penalty during 1977 by the company's United Kingdom subsidiary.

Stock Market Information

H. J. Heinz Company common stock is listed and traded principally on the New York Stock Exchange under the symbol HNZ. Approximately 5,000,000 shares of the company's common stock were traded during each of the past two years. The following table shows the dividends paid per common share and the price range of the common stock for each quarter of the past two years. The closing price of the common stock on the New York Stock Exchange at April 27, 1977 was \$29¾. All per common share data have been restated for the 3-for-2 common stock split, which occurred during the current year.

Common Stock	*Dividends Per Share*	*Stock Price Range*	
		High	*Low*
1977 by Quarter			
First	\$ .22⅔	\$33¾	\$29⅞
Second	.27	33⅛	26½
Third	.27	34⅛	27
Fourth	.30	33¾	28
Total	\$1.06⅔		
1976 by Quarter			
First	\$ .21⅓	\$38	\$28⅞
Second	.21⅓	35½	29⅝
Third	.21⅓	35⅞	31⅜
Fourth	.22⅔	34½	31⅛
Total	\$ .86⅔		

H. J. Heinz Company 3.65% cumulative preferred stock does not have voting rights. Dividends of \$.9125 have been paid in each quarter during the past two years.

H. J. Heinz Company \$3.50 second cumulative preferred stock has voting rights on an equal basis with the common stock. The \$3.50 second cumulative preferred stock is not listed on any stock exchange and the company has no knowledge of any price quotations or any private trades that might have taken place during the past two years. Dividends of \$.875 have been paid in each quarter during the past two years.

H. J. Heinz Company \$1.70 third cumulative preferred stock is listed and traded principally on the New York Stock Exchange under the symbol HNZ PR. The stock was listed following its issuance in December, 1975 in connection with the acquisition of The Hubinger Company. From the date of its listing through last year end, the stock's price ranged from a low of \$27¾ to a high of \$32 and the closing price last year was \$29½. Approximately 365,000 shares were traded during that period. Dividends per share paid last year were approximately \$.08 in the third quarter for the portion of the quarter during which the stock was initially outstanding and \$.425, the first regular full quarterly dividend, in the fourth quarter. Each share entitles the holder to one-half vote. Approximately 700,000 shares were traded during 1977 and dividends of \$.425 have been paid in each quarter. The following table shows the price range of the stock for each quarter of the current year.

\$1.70 Third Cumulative Preferred Stock	*Stock Price Range*	
	High	*Low*
1977 by Quarter		
First	\$29⅞	\$27¾
Second	29⅜	25½
Third	29½	25⅝
Fourth	31⅝	28¾

The company's capital stock is described in more detail in note 4 of the Notes to Consolidated Financial Statements.

Audit Committee

The company's Board of Directors has an Audit Committee composed entirely of outside directors. The members of the Audit Committee are identified in the listing of Officers and Directors elsewhere in this annual report. The Audit Committee meets periodically with the company's independent auditors.

Supplementary Data

(See note 11 of the Notes to Consolidated Financial Statements.)

Maintenance and repair expense increased by $5.0 million, or 8.9%, during 1977 to $60.3 million from $55.3 million a year ago. Last year's amount increased by 20.8% from $45.8 million in 1975. The increases in both years are attributable to higher material and wage costs incurred in the normal course of operations.

Depreciation expense for 1977 was $29.7 million, or $1.8 million higher than the $27.9 million reported in 1976, which represented an increase of 6.4%. Depreciation expense in 1976 increased by $2.8 million, or 11.2%, over $25.1 million in 1975. The increases in both years reflect the higher base of capital assets resulting from greater capital expenditures.

Payroll tax expense for the current year increased by $2.2 million, or 9.1%, to $27.1 million. Payroll tax expense last year was up by $5.5 million, or 28.5%, from $19.4 million in 1975. The increases in both years result primarily from higher payrolls and tax rates.

Other tax expense for 1977 amounted to $11.8 million and was virtually unchanged from 1976. Other tax expense in 1976 rose by $1.9 million, or 19.6%, from $9.9 million in 1975 because of generally higher property tax rates.

Rent expense in the current year increased nominally by $.4 million to a level of $18.5 million, compared with $18.1 million a year ago. Rent expense a year ago increased by $4.4 million, or 31.8%, from $13.7 million in 1975 because of increases in outside storage rental.

Advertising expenses were $84.0 million in 1977, an increase of $39.6 million, or 89.1%, over $44.4 million in 1976. Advertising expenses in 1976 were up by $6.0 million from $38.4 million in 1975. These increases are explained under Selling and Other Expenses on page 38 of this Financial Review.

Purchase of United Kingdom Minority

Shortly after year end, the company announced that it planned to acquire the remaining 1.7 million ordinary shares of its United Kingdom subsidiary currently held by minority interests, principally United Kingdom institutions. The company currently owns 92% of its United Kingdom subsidiary. The transaction calls for a cash payment of 450 pence per ordinary share for a total value of approximately $13.0 million.

Statements of Consolidated Income and Retained Earnings
H. J. Heinz Company and Consolidated Subsidiaries

Fiscal year ended	*April 27, 1977 (52 weeks)*	*April 28, 1976 (52 weeks)*
Income		
Sales	$1,868,820,000	$1,749,691,000
Cost of products sold	1,262,260,000	1,228,229,000
Gross profit	606,560,000	521,462,000
Selling and other expenses	433,733,000	377,642,000
Operating income	172,827,000	143,820,000
Other income (deductions)	(130,000)	8,606,000
	172,697,000	152,426,000
Interest expense	16,332,000	22,909,000
Income before income taxes	156,365,000	129,517,000
Provision for income taxes	71,119,000	53,675,000
	85,246,000	75,842,000
Income applicable to minority interests	1,430,000	1,882,000
Net income	$ 83,816,000	$ 73,960,000
Per common share amounts:		
Primary	$ 3.55	$ 3.21
Fully diluted	$ 3.47	$ 3.15
Retained Earnings		
Amount at beginning of year	$ 427,356,000	$ 374,091,000
Add Net income for the year	83,816,000	73,960,000
	511,172,000	448,051,000
Deduct Dividends paid:		
On preferred stock:		
3.65%	96,000	101,000
$3.50 series	10,000	24,000
$1.70 series	3,060,000	899,000
	3,166,000	1,024,000
On common stock, $1.06⅔ per share ($0.86⅔ in 1976)	24,260,000	19,671,000
	27,426,000	20,695,000
Amount at end of year	$ 483,746,000	$ 427,356,000

See notes to consolidated financial statements beginning on page 50.

Consolidated Balance Sheets

H. J. Heinz Company and Consolidated Subsidiaries

Assets	*April 27, 1977*	*April 28, 1976*
Current Assets:		
Cash	$ 37,140,000	$ 24,813,000
Short-term investments, at cost which approximates market	138,460,000	103,429,000
Receivables:		
Trade	146,782,000	154,876,000
Sundry	19,823,000	19,240,000
	166,605,000	174,116,000
Less Allowance for doubtful accounts	4,091,000	4,202,000
	162,514,000	169,914,000
Inventories	486,990,000	443,424,000
Prepaid expenses	24,089,000	22,064,000
Total current assets	849,193,000	763,644,000
Investments and Other Assets:		
Investments in and advances to entities, less allowance for losses of $4,034,000 ($4,096,000 in 1976)	45,478,000	43,858,000
Excess of investments in consolidated subsidiaries over net assets at acquisition	14,573,000	13,992,000
Miscellaneous other assets	9,262,000	10,065,000
	69,313,000	67,915,000
Property, Plant and Equipment, at Cost:		
Land	14,821,000	14,776,000
Buildings and leasehold improvements	175,765,000	169,840,000
Equipment, vessels and fixtures	427,989,000	390,376,000
	603,754,000	560,216,000
Less Accumulated depreciation	264,988,000	241,191,000
	338,766,000	319,025,000
Lug boxes, baskets and pallets, less amortization	2,807,000	2,823,000
Net property, plant and equipment	356,394,000	336,624,000
	$1,274,900,000	$1,168,183,000

See notes to consolidated financial statements beginning on page 50.

Liabilities and Shareholders' Equity	*April 27, 1977*	*April 28, 1976*
Current Liabilities:		
Short-term debt	$ 76,645,000	$ 63,139,000
Portion of long-term debt due within one year	4,066,000	11,812,000
Accounts payable:		
Related to suppliers	149,313,000	140,726,000
Sundry	16,644,000	10,866,000
	165,957,000	151,592,000
Accrued liabilities	66,951,000	63,855,000
Federal, foreign and state income taxes	63,342,000	38,674,000
Total current liabilities	376,961,000	329,072,000
Long-Term Debt and Other Liabilities:		
Long-term debt	140,068,000	144,436,000
Incentive profit-sharing plans	6,437,000	6,806,000
Deferred Federal and foreign income taxes	32,276,000	31,096,000
Future United Kingdom income taxes	32,573,000	25,270,000
Sundry	15,895,000	15,851,000
	227,249,000	223,459,000
Minority interests	15,159,000	17,039,000
Shareholders' Equity:		
Capital stock:		
3.65% cumulative preferred	2,594,000	2,695,000
Second cumulative preferred, having an involuntary liquidation value of $100 per share, or $279,000 ($282,000 in 1976), based on shares outstanding:		
$3.50 first series	10,000	10,000
$3.50 second series	41,000	42,000
Third cumulative preferred, having a liquidation value of $30.50 per share, or $54,900,000, based on shares outstanding:		
$1.70 first series	18,000,000	18,000,000
Common stock	68,258,000	63,142,000
	88,903,000	83,889,000
Additional capital	82,882,000	87,376,000
Retained earnings	483,746,000	427,356,000
	655,531,000	598,621,000
Less Treasury shares at cost	—	8,000
	655,531,000	598,613,000
	$1,274,900,000	$1,168,183,000

Statements of Consolidated Additional Capital

H. J. Heinz Company and Consolidated Subsidiaries

Fiscal year ended	*April 27, 1977*	*April 28, 1976*
Amount at beginning of year	$87,376,000	$62,812,000
Change in par value of common stock in connection with stock split	(5,054,000)	—
Excess of:		
Net assets acquired over par value of preferred shares issued in connection with acquisition	—	23,235,000
Option price over par value of common shares issued under employees' incentive stock option plans	522,000	1,283,000
Par value over cost of preference stock retired (United Kingdom subsidiary)	2,000	14,000
Par value of preferred shares over par value of common shares issued in exchange therefor	—	12,000
Par value over cost of cumulative preferred stock retired	36,000	51,000
Other	—	(31,000)
Amount at end of year	$82,882,000	$87,376,000

See notes to consolidated financial statements beginning on page 50.

Statements of Consolidated Changes in Financial Position

H. J. Heinz Company and Consolidated Subsidiaries

Fiscal year ended	*April 27, 1977*	*April 28, 1976*
Source of Funds:		
Net income	$ 83,816,000	$ 73,960,000
Depreciation	29,697,000	27,900,000
Deferred and future taxes	14,625,000	16,528,000
Minority interests and other	1,812,000	5,941,000
Funds from operations	129,950,000	124,329,000
Long-term borrowings	10,730,000	14,292,000
Issuance of stock in connection with acquisition	—	41,235,000
Other items, net	592,000	1,424,000
Total funds provided	141,272,000	181,280,000
Use of Funds:		
Capital expenditures	53,679,000	34,682,000
Less Retirements and disposals	(4,212,000)	(5,181,000)
	49,467,000	29,501,000
Dividends	27,426,000	20,695,000
Reduction of long-term debt	15,098,000	20,807,000
Acquisition of net assets (other than working capital)	—	31,111,000
Other items, net	11,621,000	23,012,000
Increase (decrease) in working capital — excluding cash, short-term investments and short-term debt:		
Receivables	(7,400,000)	12,312,000
Inventories	43,566,000	(74,775,000)
Prepaid expenses	2,025,000	1,853,000
Payables	(14,365,000)	3,137,000
Accruals	(3,096,000)	(6,019,000)
Income taxes	(24,668,000)	2,897,000
Total funds used	99,674,000	64,531,000
Net Increase in Cash, Short-Term Investments and Short-Term Debt	$ 41,598,000	$116,749,000
Analysis of Net Increase in Cash, Short-Term Investments and Short-Term Debt:		
Increase in cash and short-term investments	$ 47,358,000	$ 47,600,000
(Increase) decrease in short-term debt	(5,760,000)	69,149,000
	$ 41,598,000	$116,749,000

See notes to consolidated financial statements beginning on page 50.

1. Significant Accounting Policies

Accounting Principles The consolidated financial statements have been prepared using generally accepted accounting principles followed in the United States.

Fiscal Year The company operates on a fiscal year ending on the Wednesday closest to April 30. The 1977 and 1976 fiscal years ended on April 27, 1977 and April 28, 1976, respectively. Certain of the company's foreign affiliates have fiscal years ending earlier to facilitate consolidation.

Principles of Consolidation The consolidated financial statements include the accounts of the company and all significant domestic and foreign subsidiaries except for subsidiaries owning and operating fishing vessels, which are accounted for on the equity method. These latter subsidiaries, together with investments in other entities also primarily engaged in the ownership or operation of fishing vessels, are carried at cost plus equity in undistributed earnings since acquisition. Equity income, which is not material, is reflected as a reduction of cost of products sold after appropriate provision for income taxes. All material intercompany transactions have been eliminated from the consolidated financial statements.

The excess of cost of investments in consolidated subsidiaries over the net assets acquired subsequent to fiscal 1971 is being amortized over 40 years, and the excess arising prior to fiscal 1972 is not being amortized. The portion subject to amortization was $5,750,000 at April 27, 1977 ($5,169,000 at April 28, 1976).

Translation of Foreign Currencies Financial statements of foreign affiliates are translated using the provisions of Financial Accounting Standards Board Statement No. 8, "Accounting for the Translation of Foreign Currency Transactions and Foreign Currency Financial Statements." Monetary assets and liabilities are translated at current exchange rates. Nonmonetary assets and liabilities are translated at the exchange rates in effect when the assets were acquired or the liabilities incurred. Operating accounts are translated at average rates of exchange prevailing during the year. Unrealized gains or losses on the translation of foreign currency financial statements are recognized in the current income statement.

Inventories Inventories are stated at the lower of cost (principally the average method) or replacement market.

Property, Plant and Equipment Property, plant and equipment are carried at cost. Major additions and betterments are charged to the property accounts, while replacements, maintenance and repairs that do not improve or extend the lives of the respective assets are expensed in the year incurred. Property disposed of is removed from the asset and accumulated depreciation accounts, with the gain or loss recognized in the current income statement.

Depreciation For financial reporting purposes, depreciation is provided on the straight-line method over the estimated useful lives as follows:

Buildings	10-50 years
Equipment and fixtures	3-20 years
Vessels and automotive equipment	3-20 years

Accelerated depreciation methods are generally used for income tax purposes.

Income Taxes The company has not provided for deferred taxes on the undistributed earnings of foreign subsidiaries that are considered to be reinvested indefinitely. Where it is contemplated that earnings will be remitted, the credit for foreign taxes already paid generally offsets applicable U.S. income taxes. In those cases where such foreign taxes do not offset U.S. income taxes, appropriate provisions are included in the Statements of Consolidated Income. Deferred income taxes result principally from differences between depreciation deducted for income tax purposes and for financial statement reporting. The investment tax credit is accounted for under the "flow-through" method, which recognizes the benefit in the fiscal year in which the asset is acquired and placed into service.

Retirement Systems It is the policy of the company and its consolidated subsidiaries to fund pension costs as accrued. Prior service costs are amortized over varying periods not exceeding 40 years.

Research and Development Expenses Expenditures for agricultural, processing and marketing research and development are charged against income as incurred.

Interest Expense Expenditures for interest are charged against income as accrued and are not capitalized in the consolidated financial statements.

Per Common Share Amounts Primary income per common share has been computed by dividing income applicable to common shareholders (that is, after deducting preferred dividends) by 22,743,233 (22,696,484 in 1976), which represents the weighted average number of shares of common stock outstanding during the respective years. Fully diluted income per common share has been computed by adding dividends on convertible preferred stock to income applicable to common shareholders and dividing the resultant amount by the average number of shares of common stock outstanding plus the additional shares that would have been outstanding if preferred stock had been converted and outstanding stock options had been exercised.

2. Short-Term Debt

	1977	*1976*
Amount outstanding at year end	$ 76,645,000	$ 63,139,000
Average interest rate at year end	7.1%	6.1%
Average amount outstanding during period	$ 63,046,000	$114,865,000
Average interest rate for period	7.7%	9.4%
Maximum amount outstanding at any month end during period	$ 90,192,000	$133,893,000
Lines of credit available at year end	$214,765,000	$278,650,000
Lines of credit unused at year end	$138,120,000	$215,511,000

Amounts outstanding at each year end consist principally of bank borrowings (except for commercial paper borrowings of $10,537,000 in 1976 at an average rate of 6.2%). The average amounts outstanding were computed on the basis of month-end balances, and the average interest rates were computed by dividing the actual interest expense by the previously determined average amounts outstanding. Lines of credit in 1976 include $100,000,000 from the revolving bank credit agreement terminated in July, 1976; none of the $100,000,000 line was used at any time during the year. In general, lines of credit are typically renewed from year to year and may be withdrawn or canceled by either party. The company generally maintains cash balances of 10% of the line of credit with domestic banks. These balances are not subject to withdrawal restrictions.

3. Long-Term Debt

Details of long-term debt at April 27, 1977 and April 28, 1976 follow.

	Range of Interest	*Maturity (fiscal year)*	*1977*	*1976*
United States Dollars:				
Promissory notes	5½-11¼%	1978-1990	$ 7,063,000	$ 6,804,000
Promissory notes	5¼	1978-1984	7,000,000	8,000,000
Promissory notes	6⅝	1979-1993	40,000,000	40,000,000
Revenue bonds	4⅞-7⅜	1978-1994	6,126,000	4,054,000
Debentures	7¼	1984-1998	50,000,000	50,000,000
Mortgages and other	4⅞-7	1978-2000	3,365,000	3,851,000
			113,554,000	112,709,000
Foreign Currencies (U.S. dollar equivalents):				
Promissory notes:				
British pounds	10½-12½	1980-1981	1,412,000	12,810,000
Portuguese escudos	7¾	1977	—	186,000
Australian dollars	4¾-12⅜	1979-1980	13,200,000	12,462,000
Debentures:				
British pounds	5½-6	1978-1985	4,283,000	4,910,000
Mortgages:				
Italian lire	3-9	1978-1988	11,685,000	13,171,000
			30,580,000	43,539,000
Total long-term debt			144,134,000	156,248,000
Less Portion due within one year			4,066,000	11,812,000
			$140,068,000	$144,436,000

Principal payments due on consolidated long-term debt outstanding at April 27, 1977 during the four years succeeding 1978 are as follows:

1979	$14,564,000
1980	$14,710,000
1981	$ 7,679,000
1982	$ 6,388,000

Under the most restrictive debt covenant (the indenture relating to the company's 7¼ % debentures), retained earnings of $287,000,000 at April 27, 1977 ($232,000,000 at April 28, 1976) were free from such restriction.

Property, plant and equipment of domestic and foreign subsidiaries amounting to $63,539,000 are subject to liens to secure $14,844,000 of indebtedness of such subsidiaries. In addition, current assets of $143,049,000 and property, plant and equipment of $54,826,000 of certain foreign subsidiaries could become subject to liens to secure indebtedness of $4,283,000 in the event of default under the provisions of the related loan agreements.

Long-term debt of unconsolidated subsidiaries, incurred primarily to acquire fishing vessels, aggregated $12,451,000 at April 27, 1977. Principal payments due during the five succeeding years are as follows:

1978	$ 800,000
1979	$ 650,000
1980	$ 8,701,000
1981	$ 200,000
1982	$ 200,000

The company has guaranteed long-term debt of these unconsolidated subsidiaries together with debt of other third parties amounting to $11,955,000 at April 27, 1977.

4. Capital Stock

The number of shares authorized, outstanding, issued, retired or converted, and the par values of the company's capital stock appear in the table following this note.

Effective September 20, 1976, the company's restated Articles of Incorporation were amended to: (a) increase the number of authorized shares of the company's common stock from 20,000,000 to 30,000,000, (b) reclassify and change each two shares of the company's common stock, par value $4.16⅔ per share, outstanding or held in the treasury of the company into three shares of common stock, par value $3.00 per share, thereby effecting a 3-for-2 split of the company's common stock, and (c) increase the aggregate par value of the common stock of the company. All information on number of common shares and all per share data have been restated for this stock split.

The number of shares of common stock outstanding at the time of the stock split was increased from 15,161,019 to 22,741,529 as a result of the split. In addition, these changes resulted in a transfer of $5,054,000 from the Additional Capital account to the Common Stock account for the difference between the aggregate par value of the common stock before and after the split. This had no effect on total shareholders' equity. The stock split also resulted in a change in the conversion rate of the $1.70 first series third cumulative preferred stock from .5 share to .75 share of common stock.

The 3.65% cumulative preferred stock is callable or redeemable through the sinking fund at $102.75 per share. Payments (or open market purchases of such stock) aggregating $200,000 are required to be made to the sinking fund

on or before October 1 of each year.

The $3.50 second cumulative preferred stock may be redeemed by the company at $100 per share. Each year, so long as any shares are outstanding, the company (as and for an annual sinking fund) shall have retired, through redemption, purchase or otherwise, 2%, calculated on a cumulative basis, of the total number of shares of each series outstanding at the close of business on the date two months after the convertibility options expired. The company has fulfilled its sinking fund obligations through 1978.

The $1.70 first series third cumulative preferred stock is convertible into common stock at any time at a conversion rate of .75 share of common stock (.5 prior to common stock split) or may be redeemed by the company at $30.50 per share beginning on December 1, 1982, and at decreasing prices thereafter until December 1, 1986, when it may be redeemed at $28.50 per share.

At April 27, 1977 and at April 28, 1976, there were authorized, but unissued, 2,200,000 shares of third cumulative preferred stock for which the series had not been designated.

At April 27, 1977, 2,484,238 shares (1,756,101 at April 28, 1976) of common stock were reserved for conversion of convertible preferred stock outstanding and for outstanding options or for the granting of options under the employees' stock option plans.

	Cumulative preferred stocks					
	3.65% $100 par	*$3.50 First series $18.50 par*	*$3.50 Second series $18.50 par*	*$1.70 First series $10 par*	*Common stock $3.00 par*	*Treasury stock*
Year ended April 28, 1976:						
Outstanding at beginning	28,330	560	8,839	—	22,641,787	297
Reacquired and retired	(1,384)	—	(136)	—	—	—
Converted to common stock	—	—	(6,445)	—	38,670	—
Issued:						
For acquisition	—	—	—	1,800,000	—	—
On exercise of stock options	—	—	—	—	50,801	—
Outstanding at end	26,946	560	2,258	1,800,000	22,731,258	297
Authorized at end	26,946	560	2,258	1,800,000	30,000,000	—
Year ended April 27, 1977:						
Outstanding at beginning	26,946	560	2,258	1,800,000	22,731,258	297
Reacquired and retired	(1,005)	(5)	(19)	—	—	—
Issued on exercise of stock options	—	—	—	—	21,566	(297)
Outstanding at end	25,941	555	2,239	1,800,000	22,752,824	—
Authorized at end	25,941	555	2,239	1,800,000	30,000,000	—

5. Employees' Stock Option Plans and Management Incentive Plan

During 1977, the shareholders approved the 1976 Stock Option Plan (1976 Plan). This plan permits the granting of a maximum of 750,000 shares, as adjusted for the 3-for-2 stock split, of the company's common stock. The option price must not be less than fair market value at the time the options are granted for qualified options and nonqualified options to purchase unrestricted shares. The option price cannot be less than fair value as determined by the Executive Compensation Committee at the time options are granted for nonqualified options to purchase restricted shares. Nonqualified options may include stock appreciation rights that enable the holder to surrender unexercised options and to receive in exchange therefor shares of common stock with aggregate fair market value or, at the option of the Executive Compensation Committee, cash equal to the excess of the fair value of shares under option surrendered over the option price. All options and associated stock appreciation rights are exercisable after a one-year holding period. The Committee establishes the duration of the option, which may not exceed five years for qualified options or 10 years for nonqualified options. No options may be granted after June 8, 1986, the expiration date of the plan.

The 1970 Stock Option Plan (1970 Plan) permits the granting of options to purchase a maximum of 450,000 shares, as adjusted for the 3-for-2 stock split, of common stock of the company. The option price must not be less than the fair market value at the time the options are granted for qualified options and nonqualified options to purchase unrestricted shares. The price cannot be less than the fair value as determined by the Executive Compensation Committee at the time options are granted for nonqualified options to purchase restricted shares. The Committee determines the period during which options are exercisable, which may not exceed five years for qualified options or 10 years for nonqualified options. No options may be granted after June 9, 1980, the expiration date of the plan. During 1977, this plan was amended by the Board of Directors to allow the granting of stock appreciation rights similar to those that may be granted under the 1976 Stock Option Plan. This amendment will be submitted to shareholders for approval at their regular annual meeting scheduled for September 14, 1977. All stock appreciation rights are subject to a one-year holding period.

During 1976, the qualified employees' incentive stock option plan (Plan No. 2) expired. This plan permitted the granting of options on shares of common stock of the company at not less than the fair market value at the time the options were granted.

All shares under option at April 27, 1977 were exercisable at that date except for 102,500 shares issued under the 1976 Stock Option Plan that will become exercisable during 1978. All shares under option at April 28, 1976 were exercisable at that date. Data regarding options granted and exercised and shares reserved for additional grants appear in the table below.

The fair market value per share at the dates on which

options were exercised ranged from \$29¼ to \$33⅞ in 1977 and \$29⅛ to \$37⅛ in 1976, and the total fair market values of those options at the same dates were \$654,000 and \$1,747,000, respectively.

The Management Incentive Plan, adopted in 1969 and amended in 1974, covers certain key employees of the company and its subsidiaries. Participants in the plan may elect to be paid on a current or deferred basis. The aggregate amount of all awards may not exceed certain limits in any year. The company's expense in connection with the plan was \$4,824,000 in 1977 (\$4,351,000 in 1976).

		Fair market value at date of grant	
	Shares	*Range*	*Total*
For the year ended April 28, 1976:			
Shares under option at beginning	320,765	\$25⅝-\$34⅜	\$ 8,948,203
Options granted	88,538	32⅝- 33	2,955,557
Options exercised	50,801	25⅝- 28⅞	1,424,376
Shares under option at end	358,502	\$25⅝-\$34⅜	\$10,479,384
Shares reserved for granting of additional options	47,599		
For the year ended April 27, 1977:			
Shares under option at beginning	358,502	\$25⅝-\$34⅜	\$10,479,384
Options granted	126,040	31⅝- 33	4,249,629
Options exercised	21,863	25⅝- 28⅞	592,189
Shares under option at end	462,679	\$25⅝-\$34⅜	\$14,136,824
Shares reserved for granting of additional options	671,559		

6. Income Taxes

The following constitutes the provisions for Federal, State, U.S. Possessions and foreign taxes on income for 1977 and 1976.

	1977	*1976*
Current:		
Federal, State and U.S. Possessions	$45,167,000	$27,243,000
Foreign	24,772,000	20,184,000
	69,939,000	47,427,000
Deferred	1,180,000	6,248,000
	$71,119,000	$53,675,000

The current provision represents the taxes on that year's income paid or payable within the next year, except for the company's United Kingdom subsidiary, which pays its taxes in the second following year, as provided by United Kingdom tax regulations. The current provision for Federal taxes in 1977 includes a reduction for the investment tax credit amounting to $1,953,000 ($1,484,000 in 1976).

The deferred provision represents the taxes on that year's income due to be paid beyond the next year as a result of timing differences in the recording of expenses for financial statement and tax return purposes. The deferred provision primarily represents the tax effect of using accelerated methods of depreciation for tax purposes, as against the straight-line method used for financial reporting.

The provisions for taxes on income for 1977 and 1976 were 45.5% and 41.4%, respectively, of pretax income. The following reconciles the United States statutory rate with the effective rates.

	1977	*1976*
United States statutory tax rate	48.0%	48.0%
Investment tax credit	(1.3)	(1.1)
Income of foreign subsidiaries taxed at foreign tax rates	(1.1)	(0.6)
Income of U.S. Possessions subsidiaries taxed at possession tax rates	(4.5)	(7.3)
State income taxes (net of Federal income tax benefit)	1.4	1.5
Unrealized foreign currency losses without anticipated tax benefit	3.1	0.3
Other	(0.1)	0.6
	45.5%	41.4%

The company files consolidated Federal income tax returns, and such returns have been settled for all years through 1971. An examination of the Federal income tax returns for 1972 and 1973 has been completed and the company has agreed with the results of that examination.

Payment of certain income taxes has been postponed by the United Kingdom government. These taxes are reflected in the future United Kingdom income tax liability as shown on the Consolidated Balance Sheets. When these taxes become payable, the appropriate amount will be transferred to the current liability account.

7. Retirement Systems

The company and the majority of its domestic and foreign subsidiaries have pension plans covering substantially all employees. The total pension expense for 1977 was $20,458,000 ($19,217,000 in 1976). As of the most recent valuation date, the actuarially computed vested benefits of the plans covering employees of the company and its significant domestic subsidiaries exceeded fund assets by approximately $18,500,000. The unfunded past service cost of the company and its consolidated subsidiaries approximated $93,000,000 at April 27, 1977.

8. Foreign Operations

Condensed balance sheets of consolidated foreign subsidiaries appear below.

	April 27, 1977	*April 28, 1976*
Current assets	$ 307,706,000	$ 300,440,000
Current liabilities	(129,230,000)	(132,684,000)
Working capital	178,476,000	167,756,000
Fixed and other assets	163,643,000	160,480,000
Long-term debt and other liabilities	(112,183,000)	(110,869,000)
Net assets	$ 229,936,000	$ 217,367,000

Realization in U.S. dollars of assets located outside the United States is limited in certain instances by currency and other restrictions. Undistributed earnings of foreign subsidiaries amounted to $191,486,000 at April 27, 1977 ($181,655,000 at April 28, 1976). Deferred income taxes are not provided on such earnings since they are considered to be reinvested indefinitely.

9. Inventories

The inventories at April 27, 1977, April 28, 1976 and April 30, 1975 that were used in determining cost of products sold for 1977 and 1976 are summarized as follows:

	1977	*1976*	*1975*
Finished goods	$301,859,000	$275,642,000	$322,156,000
Work-in-process	38,896,000	40,682,000	36,847,000
Ingredient and packaging material	146,235,000	127,100,000	159,196,000
	$486,990,000	$443,424,000	$518,199,000

10. Leases

The net rental commitments under all noncancelable leases as of April 27, 1977 are shown in the following tabulation.

Period	*Real estate*	*Equipment*	*Total*
1978	$ 4,074,000	$3,781,000	$ 7,855,000
1979	3,691,000	2,823,000	6,514,000
1980	3,062,000	2,360,000	5,422,000
1981	2,958,000	1,530,000	4,488,000
1982	2,580,000	840,000	3,420,000
1983-1987	12,120,000	2,492,000	14,612,000
1988-1992	8,701,000	519,000	9,220,000
1993-1997	4,906,000	246,000	5,152,000
1998 and thereafter	2,008,000	—	2,008,000

Noncapitalized financing leases are not material in relation to the company's operations.

11. Supplementary Data
Set forth below is a summary of certain other financial statement data.

	1977	1976
Accrued liabilities (at end of year):		
Salaries and wages	$19,870,000	$17,709,000
Taxes, other than on income	4,741,000	5,921,000
Interest	2,841,000	3,062,000
Other	39,499,000	37,163,000
	$66,951,000	$63,855,000
Minority interests (at end of year):		
Preference shares—at par value	$ 1,925,000	$ 2,271,000
Common shareholders' equity	13,234,000	14,768,000
	$15,159,000	$17,039,000
Supplemental income statement information (for the year):		
Maintenance and repair expense	$60,279,000	$55,344,000
Depreciation expense	$29,697,000	$27,900,000
Tax expense, other than on income:		
Payroll taxes	$27,142,000	$24,879,000
Other	11,839,000	11,780,000
	$38,981,000	$36,659,000
Rent expense	$18,497,000	$18,075,000
Advertising expense	$84,046,000	$44,443,000

Other income (deductions) is set forth in the Financial Review and Management's Analysis on page 38.

12. Other Matters
The staff of the Federal Trade Commission is currently conducting investigations relating to the tuna industry, the frozen and dehydrated potato industry and the wet corn milling products industry. The company has supplied the staff with information in connection with all of these investigations and is in the process of supplying further information regarding the tuna industry investigation. At present, the company does not know what, if any, action may be taken by the staff of the Commission as a result of these investigations.

Because of the preliminary nature of these investigations, management is unable to set forth a definitive opinion with respect to the potential future impact of such investigations on the company's consolidated financial statements, but judging from the present status of such investigations, management does not believe that when finally concluded and determined, they will have a material adverse effect on the consolidated financial statements.

The Governor of American Samoa has asserted tax claims against a wholly owned subsidiary of the company. A settlement has been tentatively agreed upon and, in the opinion of management, adequate provision has been made for these claims.

Certain other claims have been filed against the company or its subsidiaries and have not been finally adjudicated. In the opinion of management, these claims, when finally concluded and determined, will not have a material adverse effect on the consolidated financial statements.

Contracts and purchase order commitments of approximately $40,000,000 at April 27, 1977 have been executed in connection with capital assets.

13. Quarterly Results (Unaudited)

A summary of results of operations for each quarter of 1977 is shown on page 41 of the Financial Review and Management's Analysis.

14. Replacement Cost Data (Unaudited)

The Securities and Exchange Commission has adopted regulations that require that most major publicly owned United States companies, including H. J. Heinz Company, disclose certain replacement cost information for fiscal years ending on or after December 25, 1976 in their Annual Reports on Form 10-K filed with the Commission. The company has complied with this regulation and the required replacement cost information is contained in the Form 10-K, a copy of which is available upon request. However, the company believes that the numerous assumptions and subjective judgments required and the estimations necessary to calculate this replacement cost data create results with significant inherent imprecision and with little, if any, comparability among companies, even in the same general industries. In addition, the results are not intended to, and in fact do not, reflect all of the effects of inflation and other economic factors on the company's results of operations and its financial position. When actual replacement decisions are made, they will be made with knowledge of the economic, regulatory and competitive conditions that exist at that time. Consequently, the results obtained from the replacement cost calculation could, and most probably would, differ significantly from results of replacement when actually made in the future. The company believes the replacement cost information is of limited value and must be reviewed with caution and a thorough understanding of the inherent limitations therein.

Replacing items of plant and equipment generally requires larger capital outlays than were originally required to purchase the asset being replaced. This higher price can be associated with technological improvements normally found in newer assets, as well as the cumulative effect of inflation on long-lived assets. Accordingly, depreciation expense based on the replacement value of productive capacity would normally exceed depreciation expense based on historical value. This increase would be, at least partially, offset by cost savings resulting from the superior technology and related efficiencies of the newer assets.

During inflationary periods, inventory values and cost of products sold at replacement would normally exceed the corresponding historical values. Historically, however, even during periods of widely varying rates of inflation, the company has been able to maintain a relatively consistent gross profit margin through increased efficiencies, a greater emphasis on the more profitable products, and selective price increases when market conditions allowed.

Accountants' Report
H. J. Heinz Company and Consolidated Subsidiaries

The Shareholders
H. J. Heinz Company:

We have examined the consolidated balance sheets of H. J. Heinz Company and consolidated subsidiaries as of April 27, 1977 and April 28, 1976 and the related statements of consolidated income and retained earnings, additional capital, and changes in financial position for the fiscal years then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances. We did not examine the financial statements of certain subsidiaries, which are included in the consolidated statements. The net assets and sales of such subsidiaries both constitute approximately 24% (26% and 25%, respectively, in 1976) of the related consolidated totals. These statements were examined by other auditors whose reports thereon have been furnished to us and our opinion expressed herein, insofar as it relates to the amounts included for such subsidiaries, is based solely upon the reports of the other auditors.

In our opinion, based upon our examination and the aforementioned reports of other auditors, the above mentioned consolidated financial statements present fairly the financial position of H. J. Heinz Company and consolidated subsidiaries as of April 27, 1977 and April 28, 1976, and the results of their operations and the changes in their financial position for the fiscal years then ended, in conformity with generally accepted accounting principles applied on a consistent basis.

Peat, Marwick, Mitchell & Co.

Two Oliver Plaza
Pittsburgh, Pennsylvania 15222
June 21, 1977

10-Year Summary of Operations and Related Data

H. J. Heinz Company and Consolidated Subsidiaries

Fiscal Year	*1977*	*1976*	*1975*
Summary of Operations:			
Sales	$ 1,868,820	$ 1,749,691	$ 1,564,930
Cost of products sold	1,262,260	1,228,229	1,097,093
Interest expense	16,332	22,909	31,027
Provision for income taxes	71,119	53,675	49,958
Income from continuing operations	83,816	73,960	66,567
Loss from discontinued and expropriated operations	—	—	—
Income before extraordinary items	83,816	73,960	66,567
Extraordinary items	—	—	—
Net income	83,816	73,960	66,567
Per common share amounts:			
Income from continuing operations	3.55	3.21	2.93
Loss from discontinued and expropriated operations	—	—	—
Income before extraordinary items	3.55	3.21	2.93
Extraordinary items	—	—	—
Net income	3.55	3.21	2.93
Other Data:			
Dividends paid:			
Common—per share	1.06⅔	.86⅔	.77⅓
—Total	24,260	19,671	17,502
Preferred—Total	3,166	1,024	139
Capital expenditures	53,679	34,682	57,219
Depreciation	29,697	27,900	25,090
Shareholders' equity	655,531	598,613	502,796
Total debt	220,779	219,387	295,051
Average number of common shares outstanding	22,743,233	22,696,484	22,633,115
Book value per common share	26.27	23.79	22.04
Price range of common stock:			
High	34⅛	38	34⅜
Low	26½	28⅞	18
Sales—domestic vs. foreign (%):			
Domestic	62	59	58
Foreign	38	41	42
Income—domestic vs. foreign (%):			
Domestic	78	66	71
Foreign	22	34	29

Notes:

1. This summary should be read in conjunction with the financial statements and footnotes thereto on pages 45 through 60 and the Financial Review and Management's Analysis on pages 37 through 44.

2. All dollar amounts are in thousands except per share data.

3. Fully diluted earnings per share have not been shown since during the most recent five fiscal years they would not be significantly different from primary earnings per share.

1974	1973	1972	1971	1970	1969	1968
$ 1,349,091	$ 1,116,551	$ 1,020,958	$ 876,451	$ 781,739	$ 707,956	$ 669,932
939,565	772,525	700,530	591,581	530,816	480,831	454,999
21,077	13,813	11,463	10,325	12,204	10,095	8,150
36,730	30,913	30,702	25,159	22,198	19,254	19,631
55,520	50,082	44,679	38,171	33,090	28,349	25,629
—	3,530	2,392	503	1,384	762	1,225
55,520	46,552	42,287	37,668	31,706	27,587	24,404
8,800	(25,000)	—	—	—	59	(1,910)
64,320	21,552	42,287	37,668	31,706	27,646	22,494
2.45	2.21	1.98	1.71	1.63	1.52	1.40
—	.16	.11	.02	.07	.04	.07
2.45	2.05	1.87	1.69	1.56	1.48	1.33
.39	(1.10)	—	—	—	—	(.11)
2.84	.95	1.87	1.69	1.56	1.48	1.22
.72⅔	.70	.67⅓	.65⅓	.58⅔	.53	.45
16,427	15,814	15,178	14,468	11,573	9,506	7,718
146	165	184	314	635	1,187	1,512
44,096	48,322	28,067	30,449	40,047	28,810	25,065
22,535	20,950	20,143	19,667	16,788	15,272	13,747
447,434	399,607	394,519	366,969	341,005	275,610	254,522
266,617	249,161	196,309	184,104	165,414	170,768	154,420
22,604,720	22,591,287	22,538,309	22,165,821	19,879,289	17,896,112	17,230,638
19.61	17.50	17.26	16.07	15.09	13.47	12.31
34⅞	30⅞	31½	30	26	24	17
24⅞	25⅜	25⅞	19⅛	18⅞	15⅝	11⅜
59	58	57	59	58	58	55
41	42	43	41	42	42	45
57	53	54	58	53	49	39
43	47	46	42	47	51	61

4. The losses from discontinued and expropriated operations in 1973 are net of tax benefits of $598.

5. Sales have been restated to reflect a change in classification of certain promotional allowances for 1976 and prior years to conform with the 1977 presentation.

6. All data have been adjusted for the 3-for-2 common stock split in 1977.

World Locations
H. J. Heinz Company

World Headquarters
P.O. Box 57
Pittsburgh, Pennsylvania 15230

Heinz U.S.A. Division
Established 1869
Pittsburgh, Pennsylvania
Richard B. Patton, President
Factories: Chambersburg, Pennsylvania/Fremont, Ohio/Henderson, North Carolina/Holland, Michigan/Isleton, California/Lake City, Pennsylvania/Lakeview, Michigan/Lithonia, Georgia/Muscatine, Iowa/Pittsburgh, Pennsylvania/Salem, New Jersey/Schaumburg, Illinois/Stockton, California/Tracy, California/Watsonville, California/Winchester, Virginia

Star-Kist Foods, Inc.
Acquired 1963
Terminal Island, California
Joseph J. Bogdanovich, Chairman
Jerry G. Scharer, President
Factories: Terminal Island, California/Muscatine, Iowa/Perham, Minnesota
Cold Storage/Collection Stations: Dakar, Senegal/Rabaul, Papua New Guinea/Papeete, Tahiti/Greymouth, New Zealand

Star-Kist Caribe, Inc.
Acquired 1963
Factory: Mayaguez, Puerto Rico

Star-Kist Samoa, Inc.
Acquired 1963
Factory: Pago Pago, American Samoa

Star-Kist International S.A.
Acquired 1963
Panama City, Panama
Factory/Collection Station: Tema, Ghana

Starkan, Inc.
Established 1968
Factory: Mayaguez, Puerto Rico

Ore-Ida Foods, Inc.
Acquired 1965
Boise, Idaho
Robert K. Pedersen, Chairman of the Board
Paul I. Corddry, President
Factories: Ontario, Oregon/Burley, Idaho/Greenville, Michigan/Massillon, Ohio

The Hubinger Company
Acquired 1975
Keokuk, Iowa
J. W. Connolly, President and Chief Executive Officer
Robert J. Wustrow, Chairman
Factory: Keokuk, Iowa

H. J. Heinz Company Australia Ltd.
Established 1935
Dandenong, Victoria
Ernest W. Barr, Managing Director
Factories: Dandenong, Victoria/
Greenseas Division—Eden, New South Wales

The Stanley Wine Company Pty. Ltd.
Acquired 1971
Clare, South Australia
S. Olszewski, Director/General Manager

Epicure Continental Food Company Pty. Ltd.
Acquired 1972
Dandenong, Victoria
B. C. McGee, Director/General Manager

Baltic Merchandising Pty. Ltd.
Acquired 1973
Dandenong, Victoria
B. C. McGee, Director/General Manager

H. J. Heinz Company of Canada Ltd.
Established 1909
Toronto, Ontario
Albert Forsyth, Chairman of the Board
T. D. Smyth, President
Factory: Leamington, Ontario

Galco Food Products Ltd.
Acquired 1971
Toronto, Ontario
H. Gallinger, President

Nichiro Heinz Company Ltd.

Established 1961
Tokyo, Japan
Hisashi Tezuka, Managing Director
Factory: Kurihama

Latin America Area Office

Mexico City, Mexico
Manuel Albarran, Area Director

Caribbean Restaurants, Inc.

Acquired 1976
San Juan, Puerto Rico
F. Gerardo Larrea, President

Alimentos Heinz C.A.

Established 1959
Caracas, Venezuela
Louis J. Pacini, President
Factory: San Joaquin, Carabobo

H. J. Heinz Company Ltd.

Established 1905
Hayes, Middlesex, England
John A. Connell, Deputy Chairman
Charles F. Lowe, Managing Director
Factories: Harlesden (London)/Kitt Green/Standish

W. Darlington and Sons, Ltd.

Acquired 1969
Rustington, Sussex, England
John A. Connell, Chairman
George A. Corrin, Managing Director
Farms: Rustington/Horley/Camberley/Poling/Angmering/Woking/Bradford-on-Avon

Pickering Foods Ltd.

Acquired 1969
Hayes, Middlesex, England
J. G. Dudlyke, Managing Director
Management control of factories at:
Didcot, Berks (The Samor Pure Foods Ltd.)
Halnaker, Chichester (J. G. Read Poultry Ltd.)
Coleraine, Northern Ireland (Pickering Foods Ltd.)

Heinz-Erin Ltd.

Established 1967
Dublin, Ireland
Charles F. Lowe, Managing Director
Brendan G. Doyle, Managing Director

Heinz Sagima (Maroc) S.A.

Established 1974
Rabat, Morocco
Abderrahim Cherkaoui, President

Heinz-Perrier S.A.

Established 1973
Paris, France
John A. Connell, Chairman

Central Europe Area Office

H. J. Heinz Company
Brussels, Belgium
Robert M. Kuijpers, Managing Director
Pieter den Dulk, Deputy Managing Director

H. J. Heinz B.V.

Acquired 1958
Elst, Gelderland, The Netherlands
Robert M. Kuijpers, Managing Director
Pieter den Dulk, Deputy Managing Director
Factory: Elst, Gelderland

H. J. Heinz Company (Belgium) S.A./N.V.

Established 1947
Brussels, Belgium
F. Willemse, General Manager-Marketing and Sales

H. J. Heinz GmbH

Established 1970
Düsseldorf, Germany
S. A. Launder, General Manager-Marketing and Sales

Industrias de Alimentacao Ltda.

Acquired 1965
Lisbon, Portugal
Jorge Giralt, General Manager
Factory: Benavente

Plasmon Dietetici Alimentari S.p.A.

Plasmon S.p.A. acquired 1963
Diet-Erba S.p.A. acquired 1974
Milan, Italy
Charles M. Berger, Managing Director
Factories: Milan/Latina/Ozzano Taro

Directors and Officers
H. J. Heinz Company

Board of Directors

Henry J. Heinz II
Chairman
Director since 1936

R. Burt Gookin
Vice Chairman and Chief Executive Officer
Director since 1959

Anthony J. F. O'Reilly
President and Chief Operating Officer
Director since 1971

Franklin E. Agnew
Senior Vice President
Director since 1971

Joseph J. Bogdanovich
Senior Vice President; Chairman, Star-Kist Foods, Inc.
Director since 1963

Frank M. Brettholle
Senior Vice President-Finance and Treasurer
Director since 1973

John A. Connell
Senior Vice President; Deputy Chairman, H. J. Heinz Company Ltd.
Director since 1968

Vira I. Heinz
Civic Leader; Trustee, Howard Heinz Endowment
Director since 1962

Lewis A. Lapham
Director, Various Corporations
Director since 1957

John A. Mayer
Director, Various Corporations
Director since 1959

F. James McDonald
Executive Vice President, North American Automotive Operations, General Motors Corporation, Detroit, Michigan
Director since 1977

Donald C McVay
Senior Vice President-Corporate Development
Director since 1968

John T. Ryan, Jr.
Chairman of the Board, Mine Safety Appliances Company, Pittsburgh, Pennsylvania
Mine safety equipment
Director since 1961

William P. Snyder III
President, The Shenango Furnace Company, Pittsburgh, Pennsylvania
Pig iron and ingot molds
Director since 1961

S. Donald Wiley
Senior Vice President, Secretary and General Counsel
Director since 1972

Committees of the Board

Executive Committee:
Mr. Gookin, *Chairman;* Mr. Heinz, Mr. O'Reilly, Mr. Agnew, Mr. Bogdanovich, Mr. Brettholle, Mr. Connell, Mr. McVay, Mr. Wiley

Executive Compensation Committee:
Mr. Mayer, *Chairman;* Mr. Heinz, Mr. Lapham, Mr. McDonald, Mr. Ryan, Mr. Snyder

Audit Committee:
Mr. Lapham, *Chairman;* Mr. Ryan, Mr. Snyder

Officers

Henry J. Heinz II
Chairman of the Board

R. Burt Gookin
Vice Chairman and Chief Executive Officer

Anthony J. F. O'Reilly
President and Chief Operating Officer

Franklin E. Agnew
Senior Vice President

Joseph J. Bogdanovich
Senior Vice President

Frank M. Brettholle
Senior Vice President-Finance and Treasurer

Edward S. Churchill, Jr.
Vice President-Corporate Planning

John A. Connell
Senior Vice President

David A. Lattanzio
Corporate Controller

Donald C McVay
Senior Vice President-Corporate Development

S. Donald Wiley
Senior Vice President, Secretary and General Counsel

Corporate Data

Transfer Agent, Registrar and Disbursing Agent
Mellon Bank N.A.
Pittsburgh, Pennsylvania

Auditors
Peat, Marwick, Mitchell & Co.
Pittsburgh, Pennsylvania

Stock Listing
New York Stock Exchange
Ticker Symbols:
Common: HNZ
Third Cumulative Preferred: HNZ PR

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Heinz

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